Ohio Office of Budget and Management

State of Ohio

John R. Kasich

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

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, 2010. 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 2010, net assets of the State's primary government decreased by $264.2 million and ended fiscal year 2010 with a balance of $20.2 billion. Net assets of the State's component units increased by $568.2 million and ended fiscal year 2010 with a balance of $12.44 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2010, can be found beginning on page 7.

Fund Financial Statements

Governmental funds reported combined ending fund balances of $9.68 billion that was comprised of $5.78 billion reserved for specific purposes, such as for debt service, state and local highway construction, and federal programs; $7.83 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, loan commitments, and inventories; and a $3.93 billion deficit. The balances and activities of the State's governmental funds are discussed further beginning on page 12.

As of June 30, 2010, the General Fund's fund balance was approximately $493 million, including $159 million reserved for "other" specific purposes, as detailed in NOTE 17; and $475.3 million reserved for nonappropriable items. The General Fund's fund balance decreased by $284.9 million (exclusive of a $4.1 million increase in inventories) or 36.8 percent during fiscal year 2010. The balances and activities of the General Fund are discussed further beginning on page 12.

Proprietary funds reported net assets of $2.10 billion, as of June 30, 2010, an increase of $197.8 million since June 30, 2009. This increase is largely due to the net increase of $1.31 billion in the Workers' Compensation Fund and the net increase of $29.9 million in the Lottery Commission Fund which was offset by a $1.14 billion decrease in the Unemployment Compensation Fund. 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 $25.3 billion at June 30, 2010. The majority of the $334.2 million increase during fiscal year 2010 was the acquisition of highway and bridge network infrastructure. 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

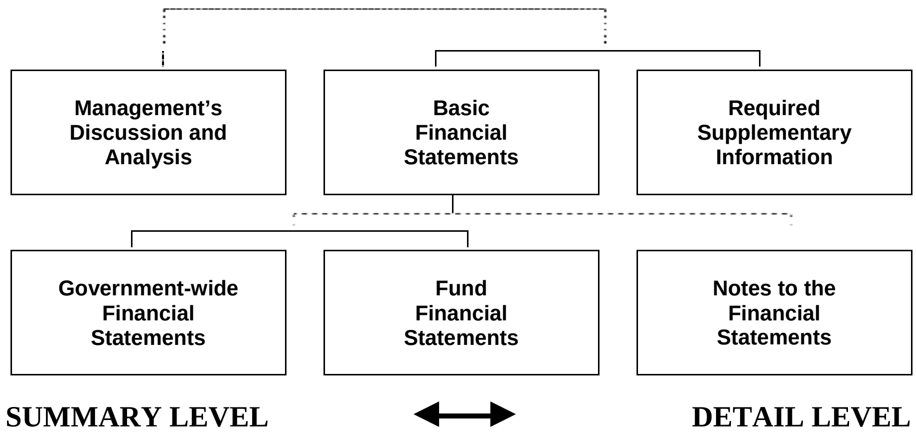
Overall, the carrying amount of total long-term debt for the State's primary government increased $327.9 million or 1.99 percent during fiscal year 2010 and reported an ending balance of $16.84 billion. During the year, the State issued, at par, $1.48 billion in general obligation bonds, $353 million in revenue bonds, and $326.5 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $952.7 million and $201.5 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

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

Government-wide Financial Statements

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

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

The State's government-wide financial statements, which can be found on pages 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 insurance program, lottery operations, unemployment compensation program, the leasing and maintenance operations of the Ohio Building Authority, guaranteed college tuition credit program, liquor control operations, underground parking garage operations at the statehouse, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the School Facilities Commission, Cultural Facilities Commission, 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, 24 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 45 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 2010, as shown in the table below, the combined net assets of the State's primary government decreased $264.2 million or 1.3 percent. Net assets reported for governmental activities decreased $462 million or 2.5 percent and business-type activities increased $197.8 million, or 10.4 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Primary Government
Statement of Net Assets
As of June 30, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Assets and Deferred Outflows of Resources:						
Current Assets and Other Noncurrent Assets …………….	$ 17,955,313	$ 25,718,770	$ 43,674,083	$ 19,435,873	$ 23,544,273	$ 42,980,146
Capital assets ……………………	25,148,054	182,446	25,330,500	24,879,536	116,742	24,996,278
Total Assets …………………	$ 43,103,367	$ 25,901,216	$ 69,004,583	$ 44,315,409	$ 23,661,015	$ 67,976,424
Total Deferred Outflows of Resources ………………	$ 42,770	$ -	$ 42,770	$ -	$ -	$ -
Liabilities						
Current and Other Liabilities……	$ 7,550,457	$ 89,187	$ 7,639,644	$ 8,707,862	$ 67,592	$ 8,775,454
Noncurrent Liabilities……………	17,499,511	23,707,252	41,206,763	17,049,410	21,686,444	38,735,854
Total Liabilities………………	$ 25,049,968	$ 23,796,439	$ 48,846,407	$ 25,757,272	$ 21,754,036	$ 47,511,308
Net Assets:						
Invested in Capital Assets, Net of Related Debt …………….	$ 22,578,727	$ 51,578	$ 22,630,305	$ 22,325,346	$ 37,059	$ 22,362,405
Restricted………………………….	2,902,122	86,616	2,988,738	2,343,646	80,131	2,423,777
Unrestricted……………………….	(7,384,680)	1,966,583	(5,418,097)	(6,110,855)	1,789,789	(4,321,066)
Total Net Assets…………….	$ 18,096,169	$ 2,104,777	$ 20,200,946	$ 18,558,137	$ 1,906,979	$ 20,465,116

As of June 30, 2010, 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 $22.63 billion. Restricted net assets were approximately $2.99 billion, resulting in a $5.42 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 $7.38 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 $9.68 billion of outstanding general obligation and special obligation debt at June 30, 2010, $6.94 billion is attributable to debt issued for state assistance to component units (School Facilities Commission, Cultural 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, 2010, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $444.8 million (see NOTE 14A.) and a $694 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 2010 and 2009, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2010
With Comparatives for the Fiscal Year Ended June 30, 2009
(dollars in thousands)

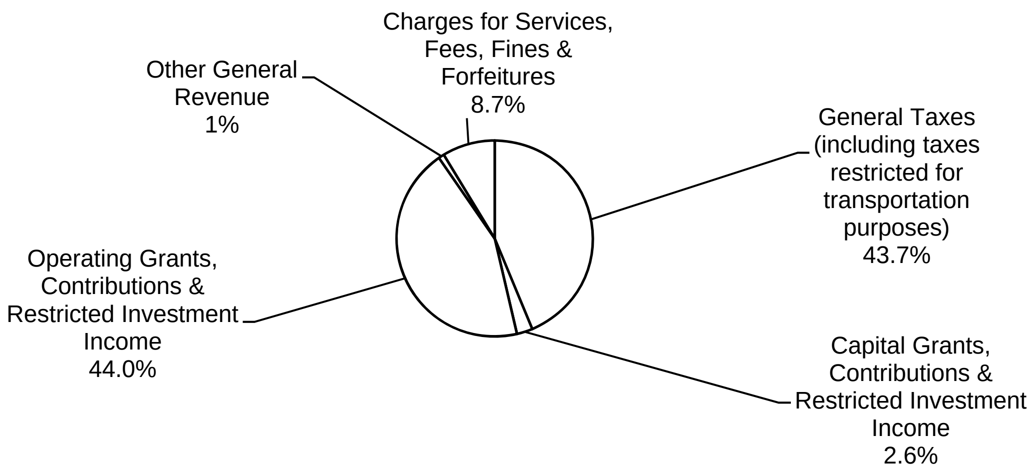
	Fiscal Year 2010			Fiscal Year 2009		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	$ 4,114,638	$ 6,722,648	$ 10,837,286	$ 3,648,227	$ 6,750,214	$ 10,398,441
Operating Grants, Contributions and Restricted Investment Income/ (loss)	20,839,250	5,403,784	26,243,034	18,225,832	1,028,756	19,254,588
Capital Grants, Contributions and Restricted Investment Income/ (loss)	1,241,422	-	1,241,422	1,198,200	-	1,198,200
Total Program Revenues	26,195,310	12,126,432	38,321,742	23,072,259	7,778,970	30,851,229
General Revenues:						
General Taxes	18,941,470	-	18,941,470	19,520,744	-	19,520,744
Taxes Restricted for Transportation	1,766,204	-	1,766,204	1,743,151	-	1,743,151
Tobacco Settlement	336,259	-	336,259	366,197	-	366,197
Escheat Property	160,755	-	160,755	117,172	-	117,172
Unrestricted Investment Income	(52,677)	-	(52,677)	(8,765)	-	(8,765)
Other	592	48	640	134	321	455
Total General Revenues	21,152,603	48	21,152,651	21,738,633	321	21,738,954
Total Revenue	47,347,913	12,126,480	59,474,393	44,810,892	7,779,291	52,590,183
Expenses:						
Primary, Secondary and Other Education	12,259,233	-	12,259,233	11,888,145	-	11,888,145
Higher Education Support	2,771,611	-	2,771,611	2,967,485	-	2,967,485
Public Assistance and Medicaid	18,828,082	-	18,828,082	17,903,102	-	17,903,102
Health and Human Services	4,003,033	-	4,003,033	4,061,765	-	4,061,765
Justice and Public Protection	3,077,704	-	3,077,704	3,251,316	-	3,251,316
Environmental Protection and Natural Resources	416,071	-	416,071	413,398	-	413,398
Transportation	2,187,406	-	2,187,406	2,171,475	-	2,171,475
General Government	620,090	-	620,090	642,467	-	642,467
Community and Economic Development	4,491,643		4,491,643	4,265,827		4,265,827
Interest on Long term Debt (excludes interest charged as program expense)	133,335	-	133,335	165,908	-	165,908
Workers' Compensation	-	2,861,222	2,861,222	-	2,158,753	2,158,753
Lottery Commission	-	1,816,213	1,816,213	-	1,774,308	1,774,308
Unemployment Compensation	-	5,605,830	5,605,830	-	3,485,942	3,485,942
Ohio Building Authority	-	22,492	22,492	-	26,837	26,837
Tuition Trust Authority	-	81,119	81,119	-	94,888	94,888
Liquor Control	-	489,087	489,087	-	479,919	479,919
Underground Parking Garage	-	3,755	3,755	-	2,804	2,804
Office of Auditor of State	-	70,637	70,637	-	85,575	85,575
Total Expenses	48,788,208	10,950,355	59,738,563	47,730,888	8,109,026	55,839,914
Surplus/ (Deficiency) Before Transfers	(1,440,295)	1,176,125	(264,170)	(2,919,996)	(329,735)	(3,249,731)
Transfers - Internal Activities	978,327	(978,327)	-	899,385	(899,385)	-
Change In Net Assets	(461,968)	197,798	(264,170)	(2,020,611)	(1,229,120)	(3,249,731)
Net Assets, July 1	18,558,137	1,906,979	20,465,116	20,578,748	3,136,099	23,714,847
Net Assets, June 30	$ 18,096,169	$ 2,104,777	$ 20,200,946	$ 18,558,137	$ 1,906,979	$ 20,465,116

Governmental Activities

Expenses exceeded revenues during fiscal year 2010 for governmental activities. When combined with transfers from the State's business-type activities, net assets for governmental activities decreased from $18.56 billion, at July 1, 2009, to $18.10 billion, at June 30, 2010, or $462 million. Revenues for fiscal year 2010 in the amount of $47.35 billion were 5.7 percent higher than those reported for fiscal year 2009. General taxes (including taxes restricted for transportation purposes) comprised 43.7 percent of fiscal year 2010 total revenues and decreased by a modest 2.6 percent compared to fiscal year 2009. Operating grants, contributions and restricted investment income, making up 44 percent of total revenue, rose a significant 14.3 percent over the prior year. This increase is primarily due to the increased federal assistance resulting from the American Recovery and Reinvestment Act of 2009 (ARRA) for Medicaid and public assistance, education, and highway operations. Fiscal year 2010 net transfers of $978.3 million, increased by 8.8 percent over fiscal year 2009. Reported expenses of $48.79 billion represented a slight increase of 2.2 percent compared to fiscal year 2009.

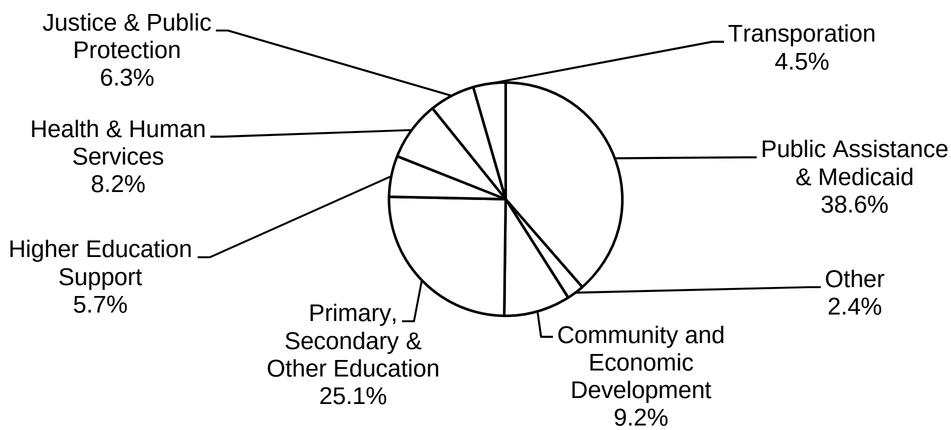
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2010.

Governmental Activities — Sources of Revenue
Fiscal Year 2010



Total FY 10 Revenue for Governmental Activities = $47.35 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2010



Total FY 10 Program Expenses for Governmental Activities = $48.79 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, 2010 and 2009. 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, 2010
With Comparatives for the Fiscal Year Ended June 30, 2009
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2010			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses—All Programs**
Primary, Secondary and Other Education……………	$ 12,259,233	$ 9,644,102	78.7%	19.8%
Higher Education Support……………………………..	2,771,611	2,444,828	88.2%	5.0%
Public Assistance and Medicaid………………………	18,828,082	3,244,917	17.2%	6.6%
Health and Human Services…………………………..	4,003,033	1,010,549	25.2%	2.1%
Justice and Public Protection………………………….	3,077,704	1,766,797	57.4%	3.6%
Environmental Protection and Natural Resources…	416,071	132,047	31.7%	0.3%
Transportation……………………………………………	2,187,406	788,974	36.1%	1.6%
General Government……………………………………	620,090	(87,254)	-14.1%	-0.2%
Community and Economic Development…………….	4,491,643	3,514,603	78.2%	7.2%
Interest on Long-Term Debt…………………………….	133,335	133,335	100.0%	0.3%
Total Governmental Activities…………………………..	$ 48,788,208	$22,592,898	46.3%	46.3%

	For the Fiscal Year Ended June 30, 2009			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses—All Programs**
Primary, Secondary and Other Education……………	$ 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…………………………..	$ 47,730,888	$24,658,629	51.7%	51.7%

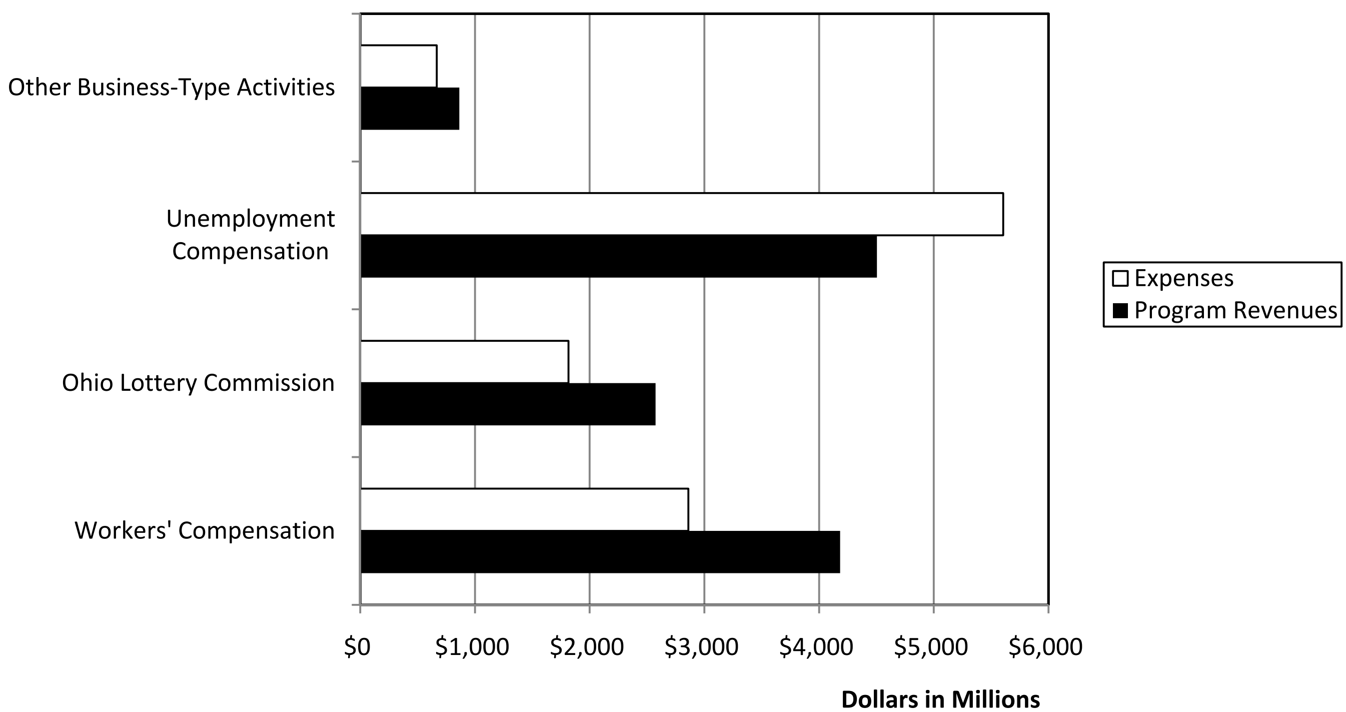
Business-Type Activities

The State's enterprise funds reported net assets of $2.1 billion, as of June 30, 2010, as compared to $1.91 billion in net assets, as of June 30, 2009, an increase of 10.4 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of $3.83 billion, as of June 30, 2010, as compared to $2.52 billion, as of June 30, 2009, a $1.31 billion increase. The Lottery Commission Fund reported net assets of $168.6 million, as of June 30, 2010, as compared to $138.7 million, as of June 30, 2009, a $29.9 million increase. The Tuition Trust Authority Fund also reported an increase in net assets. The Tuition Trust Authority Fund reported net assets of $(47.5) million during fiscal year 2010 and $(52.8) million during fiscal year 2009, an increase of $5.4 million. The Unemployment Compensation Fund and the Liquor Control Fund, however, reported decreases in net assets during fiscal year 2010. The net assets in the Unemployment

Compensation Fund decreased $1.14 billion from $(761.2) million, as of June 30, 2009, to $(1.91) billion, as of June 30, 2010. The net assets in the Liquor Control Fund decreased $5.3 million from $26.1 million, as of June 30, 2009, to $20.8 million, as of June 30, 2010.

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

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2010



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, 2010 and June 30, 2009 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2010			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unreserved/Undesignated Fund Balance	$(141,212)	$(2,633,867)	$(1,159,741)	$(3,934,820)
Total Fund Balance	493,042	6,706,058	2,475,811	9,674,911
Total Revenues	23,948,850	18,907,772	4,444,923	47,301,545
Total Expenditures	23,719,349	19,075,097	6,701,049	49,495,495

	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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2010, General Fund revenue decreased by $1.21 billion while expenditures decreased by $2.57 billion. Other sources and uses showed a large decline of net uses of $181.4 million when compared with fiscal year 2009. As a result, the fund balance decreased by $284.9 million (exclusive of a $4.1 million increase in inventories) or 36.8 percent.

General Fund Budgetary Highlights

The State ended the first year of its 2010-11 biennial budget on June 30, 2010, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $524.3 million. Total budgetary sources for the General Fund (including $1.48 billion in transfers from other funds) in the amount of $26.32 billion were below final estimates by $623.7 million or 2.3 percent during fiscal year 2010. Total tax receipts were below final estimates by $121.5 million or .7 percent.

Total budgetary uses for the General Fund (including $1.09 billion in transfers to other funds) in the amount of $27.14 billion were below final estimates by $1.15 billion or 4.1 percent for fiscal year 2010. There was no budget stabilization designation at June 30, 2009 for use in balancing the final fiscal year 2010 budget.

The appropriations act (Act) for the 2010-11 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 July 17, 2009. Prior to passage of the Act, three, seven-day interim budgets were in effect. The Act provided for 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).

Budget highlights for major program categories compared to 2008-09 actual spending include the following:

- An increase of 3.4 percent for Medicaid as well as Medicaid reform and cost containment initiatives.
- A .7 percent increase for corrections and youth services.
- Decreases of 8.3 percent for higher education and 5.15 percent for primary and secondary education.
- A decrease of 13.8 percent for mental health and developmental disabilities.
- Restructuring of $736 million of fiscal years 2010 and 2011 GRF debt service into fiscal years 2012 through 2025.

Major new sources of revenues reflected in the 2010-11 Act include:

- $2.42 billion of funding under the American Recovery and Reinvestment Act of 2009, including $1.46 billion for primary and secondary education, $628 million for Federal Medical Assistance payments, and $326 million for other purposes.
- $933 million in gaming and license revenues from the Ohio Lottery Commission's implementation of video lottery terminals (VLTs). (In September 2009, the Ohio Supreme Court ruled that the VLT-enabling legislation in the Act was subject to referendum. In March 2010, the Secretary of State notified the committee for the petitioners that a referendum would be placed on the November 2010 ballot. In June 2010, the committee for the petitioners notified the Secretary of State that it was withdrawing the ballot issue).
- $259 million from the Ohio Tobacco Use Prevention and Control Foundation Endowment Fund to be deposited into a special State, non-GRF fund, to be used for various health care initiatives (pending Supreme Court decision outcome on allowable use).
- $1.04 billion of "one-time" revenues or savings, including $364 million from the spend-down of carry-forward balances (that required temporary suspension of the one-half of one percent of GRF revenue the State is required to maintain as an ending fund balance for the 2010-11 biennium); $250 million transferred from Ohio School Facilities Commission funds with anticipated replacement through bond funding of school facilities in future biennia; $272 million in savings through a two week unpaid "furlough" for State employees during each year of the biennium; $84.3 million from a reduction in State funding to public libraries; and $65 million from the transfer to the GRF of interest on the proceeds of the State's 2007 tobacco securitization.
- $530 million from transfers to the GRF of unclaimed funds and from other non-GRF funds.

In response to the above referenced September decision of the Ohio Supreme Court declaring the VLT provisions in the biennial Act subject to referendum, the General Assembly approved, and the Governor signed into law December 2009, legislation keeping personal income tax rates at 2008 levels through tax year 2010. The Ohio Department of Taxation estimates the measure will result in $844 million of additional State GRF tax revenues in the current biennium.

The State ended fiscal year 2010 with a GRF cash balance of $510.4 million, a GRF budgetary fund balance of $139.1 million, and a $-0- balance in the Budget Stabilization Fund (BSF) with no designation of any GRF cash for transfer to the BSF for fiscal year 2011. The Office of Budget and Management is currently projecting and managing expenditures in support of a positive General Revenue Fund balance at the end of fiscal year 2011.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund*, had a fund balance of $340.9 million at June 30, 2010, an increase of $57.1 million, or 20.1 percent, compared to fiscal year 2009. This increase in fund balance is due to revenues exceeding expenditures by $19.4 million, with net transfers totaling $37.7 million.

Revenue for Licenses, Permits and Fees increased by $528.7 million, or 110.2 percent, over fiscal year 2009. This increase was due to the establishment of a new, temporary (through October 1, 2011) assessment on hospital facility costs related to the Medicaid program to fund costs that otherwise would be charged to the General Fund, and to an increase in the Nursing Facility franchise fee.

Public assistance and Medicaid expenditures increased $2.87 billion, or 44.1 percent, compared to the previous fiscal year. This increase in expenditures was largely offset by a $2.35 billion, or 35.1 percent, increase in federal government revenue compared to the previous fiscal year. The increase in expenditures was primarily due to the Medicaid, TANF, Food Stamps and federally funded day-care programs. The continued downturn in the economy and high unemployment contributed to the increased program costs.

Health and Human Services expenditures increased by $118.5 million, or 18.2 percent, over fiscal year 2009. This was mostly due to moving the PASSPORT program, which allows Medicaid-eligible seniors to receive community-based in-home services as an alternative to nursing home placement, from the General Fund to the Job, Family and Other Human Services Fund.

The increase in net transfers resulted from a transfer from the Unemployment Compensation Enterprise Fund of $42.8 million for reimbursement of administrative costs associated with the program, an increase of $38.9 million over the previous year.

The *Education Fund*, as of June 30, 2010, had a fund balance of $80.9 million, a decrease of $11.1 million, or 12 percent, since June 30, 2009. Revenues in the Education Fund increased by $429.7 million, or 24.3 percent, in fiscal year 2010. Expenditures increased by $440.4 million, or 17.5 percent, compared to fiscal year 2009. The bulk of the change is due to an increase in primary, secondary, and other education expenditures. The increase in both revenues and expenditures is primarily due to the receipt and disbursement of federal money under the American Recovery and Reinvestment Act of 2009.

The fund balance for the *Highway Operating Fund*, as of June 30, 2010, totaled approximately $1.17 billion, an increase of $130 million (including a $5.8 million decrease in inventories) or 12.4 percent since June 30, 2009. This was due to an excess of revenues over expenditures of $147.3 million, which is an increase of $211.3 million from fiscal year 2009. This change, coupled with a decrease in net transfers of $99.9 million, contributed to the increase in fund balance.

Motor vehicle fuel tax revenue increased by $46.2 million, or 7.5 percent, when compared to fiscal year 2009. This was due to a change in the law effective for fiscal years 2010 and 2011 concerning how the tax money is distributed, with the end result being the Department of Transportation receiving two percent of the tax proceeds as revenue instead of as transfers. Federal revenue increased by $69.1 million, or 5.8 percent, as a result of revenues received under the American Recovery and Reinvestment Act of 2009, which more than offset a decline in traditional Federal Highway funding revenues.

The decrease in net transfers is attributable to an increase in transfers out of $160 million, or 43.4 percent, compared to fiscal year 2009. This is due to changes in law that require the Highway Operating Fund to transfer $100 million in motor vehicle fuel tax revenue during fiscal years 2010 and 2011 to the Ohio Public Works Commission, and due to changes in the law that require motor vehicle fuel taxes that previously were distributed directly into the Department of Public Safety to instead be funneled through the Highway Operating Fund as transfers-out.

For the *Revenue Distribution Fund*, the fund balance increased by $42.5 million over the prior year for a fund deficit of $191.7 million at June 30, 2010. Fiscal year 2010 net transfers out of $443.5 million were less than the $486 million excess of revenues over expenditures, thus causing the increase in fund balance.

Income taxes saw a decrease of $55.7 million, or 8.1 percent. This decrease can be attributed to the current economy within the State, as discussed further in the economic outlook section.

Corporate and public utility tax revenues increased by $164.5 million, or 10.1 percent, compared to fiscal year 2009. The fund's increased share of the collections of the commercial activities tax, which completed the phasing-in process in fiscal year 2010, accounted for the majority of the increase.

Expenditures in the Primary, Secondary and Other Education function increased by $128 million, or 12.9 percent, compared to fiscal year 2009. This increase was primarily attributable to the final cessation of the tangible property tax. These expenditures are used to reimburse 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.

Transfers-in increased by $180.6 million or 88.5 percent in fiscal year 2010 as compared to fiscal year 2009. The increase, primarily from the State's General Fund, was used to provide cash needed to cover the difference between revenue collected from the commercial activities tax, and the amount of cash needed to reimburse local school districts for revenues lost due to the phase-out of the tangible property tax.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2010, totaled approximately $5.3 billion dollars, a decrease of $75.9 million or 1.4 percent since June 30, 2009. The fund balance decline was due to decreases in tobacco settlement revenue of $58 million and investment income of $11.6 million, respectively, compared to fiscal year 2009. Tobacco settlement revenue decreased due to declining cigarette consumption and due to tobacco companies depositing more money into the disputed account during fiscal year 2010, as described in Note 19E. Debt Service expenditures totaling $306 million dropped by $74.6 million, or 19.6 percent, 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 $1.31 billion increase in net assets was primarily due to investment income of $2.05 billion, an increase of $2.24 billion over fiscal year 2009. The increase in investment income is primarily attributable to a $1.3 billion net increase in the fair value of the investment portfolio in fiscal year 2010. Measures taken by the Bureau of Workers' Compensation (BWC) Board of Directors to boost returns included implementation of a strategy to diversify fixed and equity investments within the State Insurance Fund; a comprehensive update to the investment policy statement; and the selection of investment managers to execute BWC's passive investment strategy. These measures netted an approximate return of 12 percent, after management fees, during fiscal year 2010.

During fiscal year 2010, the benefit and claims expense increased to $2.74 billion, exceeding premium and assessment income by $619 million. Benefits and claims expense increased $663.5 million over the prior year due to a discount rate reduction to 4 percent. The effect of the rate change was lessened due to lower estimates for future medical expense as a result of lower claim frequencies and a decrease in the medical inflation rate. A 12 percent reduction in premium rates, affecting a majority of Ohio's private employers, contributed to a $242.5 million reduction in premium and assessment income over the prior year. Administration expenses increased $31.2 million as the result of a reduction to the compensation adjustment expense allocation to 68.8 percent.

For fiscal year 2010, the *Lottery Commission Fund* reported $758.9 million in net income before transfers of $728.6 million and $335 thousand to the Education and General funds, respectively, posting a $29.9 million, or 21.6 percent, increase in the fund's net assets. Ticket sales increased approximately three percent increasing sales from $2.42 billion in fiscal year 2009 to $2.49 billion in fiscal year 2010. The online game KENO with the new Booster option and the introduction of the multistate game Powerball/Power Play contributed to the increase. Prizes expenses were $1.51 billion as of June 30, 2010, compared to $1.46 billion, as of June 30, 2009, an increase of approximately $54.7 million or 3.7 percent. This increase was in proportion to ticket sales. During fiscal year 2010, depreciation expense increased by $16.2 million to $18 million as a result of new gaming equipment. The administration expense during fiscal year 2010 decreased by $32.7 million to $89.4 million. Investment income increased $12 million or 21.6 percent during fiscal year 2010.

The $1.14 billion decrease in net assets in the *Unemployment Compensation Fund* is due to the continued economic downturn in Ohio. The sluggish economy kept unemployment rates high resulting in more benefits paid and over longer periods of time. The unemployment rate in Ohio rose to a high of 11.8 percent during fiscal year 2010 compared to a high of 10.8 percent during fiscal year 2009. These factors resulted in benefits and claims expenses of $5.61 billion, an increase of approximately $2.12 billion or 60.8 percent from the previous year with premiums and assessment income rising a modest $103.1 million or 9.4 percent. Federal grant funding rose sharply in fiscal year 2010 with a $2.11 billion increase over the prior year. Investment income decreased $8.94 million from fiscal year 2009 levels.

In order to maintain current benefit levels, federal loans were required. This resulted in a $2.31 billion non-current intergovernmental payable at June 30, 2010. The State anticipates Federal assistance to continue into future fiscal years.

Nonmajor Proprietary Funds
The *Tuition Trust Authority Fund* ended fiscal year 2010 with a $47.5 million deficit compared to the fiscal year 2009 deficit of $52.8 million. Investment income of $62.2 million, an increase of $149.5 million or 171.2 percent from the previous year contributed to the change. The swing in investments is due to the increase in the fair value of investments due to positive returns in fiscal year 2010. Actuarial tuition benefits expense (which is reflected as "Other" operating revenues in the financial statements) was $15.6 million, a $135.7 million, or 89.7 percent decrease. This was the result of the change in tuition benefits payable from fiscal year 2009 to fiscal year 2010 due to tuition inflation and investment returns being higher than anticipated. Benefits and claims expenses decreased $13.1 million, from $84.5 million for fiscal year 2009 to $71.4 million for fiscal year 2010. The drop in expenses is attributed to less reallocations to variable investment options within the Guaranteed Savings Plan and less redemptions in fiscal year 2010 verses fiscal year 2009.

The *Liquor Control Fund* reported a decrease in net assets of $5.3 million, or 20.5 percent, after transferring $167.7 million to the General Fund and $55.3 million to other governmental funds. Transfers increased $9.5 million or 4.4 percent over fiscal year 2009.

In fiscal year 2010, transfers from proprietary funds to governmental funds totaled $1.01 billion, up $70 million or 7.4 percent when compared to the $943.1 million in transfers-out reported in fiscal year 2009.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010 and June 30, 2009, the State had invested $25.3 billion and $25 billion, respectively, net of accumulated depreciation of $2.94 billion and $2.82 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, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 1,972,225	$ 11,994	$ 1,984,219	$ 1,927,909	$ 11,994	$ 1,939,903
Buildings	1,867,937	80,790	1,948,727	1,898,089	85,940	1,984,029
Land Improvements	189,624	11	189,635	210,117	12	210,129
Machinery and Equipment	196,188	87,524	283,712	180,448	16,389	196,837
Vehicles	118,412	2,127	120,539	125,520	2,407	127,927
Infrastructure:						
Highw ay Netw ork:						
General Subsystem	8,492,573	-	8,492,573	8,445,695	-	8,445,695
Priority Subsystem	7,654,329	-	7,654,329	7,542,770	-	7,542,770
Bridge Netw ork	2,843,787	-	2,843,787	2,559,462	-	2,559,462
Parks, Recreation, and Natural Resources System .	67,606	-	67,606	56,384	-	56,384
	23,402,681	182,446	23,585,127	22,946,394	116,742	23,063,136
Construction-in-Progress	1,745,373	-	1,745,373	1,933,142	-	1,933,142
Total Capital Assets, Net	$ 25,148,054	$ 182,446	$ 25,330,500	$ 24,879,536	$ 116,742	$ 24,996,278

During fiscal year 2010, the State recognized $314.2 million in annual depreciation expense relative to its general governmental capital assets as compared with $303.9 million in annual depreciation expense recognized in fiscal year 2009. The State also recognized $31.3 million in annual depreciation expense relative to its business-type capital assets as compared with $16.5 million in annual depreciation expense recognized in fiscal year 2009.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2010 totaling approximately $639.3 million, as compared with $315.6 million in the previous fiscal year. The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.3 percent (approximately a 1.1 percent increase for governmental activities and a 56.3 percent increase for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had $140.8 million in major construction commitments (unrelated to infrastructure), as of June 30, 2010, as compared with the $45.3 million balance reported for June 30, 2009.

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 42,891 in lane miles of highway (12,932 in lane miles for the priority highway subsystem and 29,959 in lane miles for the general highway subsystem) and approximately 105.4 million square feet of deck area that comprises 14,253 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: *Priority*, which comprises interstate highways, freeways, and multi-lane portions of the National Highway System, and *General*, which comprises two-lane routes outside of cities. It is the State's goal to allow no more than 25 percent of the total lane-miles reported for each of the priority and general subsystems, respectively, to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation for calendar year 2009, indicates that only 2 percent and 4.5 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating. For calendar year 2008, only 2.3 percent and 4.7 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 2009, indicates that only 3.3 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 2008, 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 fiscal year 2010, total actual maintenance and preservation costs for the priority and general subsystems were $394 million and $299.5 million, respectively, compared to estimated costs of $357.4 million for the priority system and $209.8 million for the general system, while total actual maintenance and preservation costs for the bridge network was $330.3 million compared to estimated costs of $330.6 million. For the previous fiscal year, 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. The State’s costs for actual maintenance and preservation 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, 2010 and June 30, 2009, the State had total debt of approximately $16.84 billion and $16.51 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2010
With Comparatives as of June 30, 2009
(dollars in thousands)

	As of June 30, 2010			As of June 30, 2009		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 7,343,289	$ -	$ 7,343,289	$ 7,138,051	$ -	$ 7,138,051
Revenue Bonds and Notes	6,891,331	64,200	6,955,531	6,646,593	80,657	6,727,250
Special Obligation Bonds	2,338,094	-	2,338,094	2,427,556	-	2,427,556
Certificates of Participation	200,428	-	200,428	216,537	-	216,537
Total Debt	$16,773,142	$64,200	$16,837,342	$16,428,737	$80,657	$16,509,394

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 2010, the State issued, at par, $1.48 billion in general obligation bonds, $353 million in revenue bonds, and $326.5 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $952.7 million and $201.5 million, respectively, were refunding bonds. The total increase in the State’s debt obligations for the current fiscal year, as based on carrying amount, was 1.99 percent (a 2.1 percent increase for governmental activities and a 20.4 percent decrease for business-type activities).

Credit Ratings

Ohio's credit ratings for general obligation debt are Aa1 by Moody's Investors Service, Inc. (Moody's) and AA+ by Fitch Inc. (Fitch). Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt as AA+, 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 Aa2, 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	AA-	Aa2	AA	Net Liquor Profits
State Infrastructure Bank	AA-	Aa1	AA	Federal Transportation Grants and Loan Receipts
Revitalization Projects	AA-	Aa3	AA-	Net Liquor Profits
Buckeye Tobacco Settlement Financing Authority	BBB-	Baa3	BB-	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund

The respective ratings assigned to the Bonds by Fitch and Moody's reflect those agencies' recalibrations of their municipal rating scales in April 2010. According to those rating agencies, their recalibrations are to provide a greater degree of comparability of ratings among all issuers and obligations rated by each agency. Fitch and Moody's have each announced that market participants should not view their recalibrations of municipal ratings as rating upgrades or as an improvement in the credit quality of the underlying securities, but rather as recalibrations of their ratings to different rating scales, denoting a comparable level of credit risk as ratings for other sectors. Further information regarding the recalibrations may be obtained directly from Fitch or Moody's.

On June 10, 2009, Fitch revised from "negative" to "stable" its "credit outlook" associated with its general obligation credit rating of the State. On August 24, 2009, Moody's revised from "stable" to "negative" its "credit outlook" associated with its general obligation credit rating of the State. On September 23, 2009, S&P also revised its "credit outlook" on the State from "stable" to "negative" associated with its general obligation credit rating of the State.

A 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. The ratings outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating outlook may be obtained from the respective rating agency.

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 Third Frontier Research and Development, development of sites and facilities, and veterans compensation, 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 may be changed by future constitutional amendments.

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

Through October 2010, the State's economy has continued to make slow, but positive progress as it recovers from the national recession. For the budget biennium, taxes have performed better than estimated and there has been good year-over-year growth. The State's unemployment rate has decreased to 10 percent from a high of 11 percent in March 2010. However, much of the gains in employment early in calendar year 2010 have reversed as of October 2010.

The national economy also continues its slow expansion. Real gross domestic product (GDP) increased by 2 percent in the third quarter of calendar year 2010 and marks a fourth consecutive quarterly increase. Modest growth is expected for the fourth quarter of calendar year 2010.

Nationally, total employment realized its best increase in October 2010 since May and the national unemployment rate held steady at 9.6 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.

For fiscal year 2011, total fiscal year-to-date GRF receipts through October 2010 are $4 million above estimates and $700.7 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2010 are $29.4 million above estimates for the first four months of fiscal year 2011 and $460.4 million above expenditures for the first four months of the prior fiscal year. As of October 2010, both receipts and disbursements are within one percent of budget estimates for fiscal year 2011. Furthermore, fiscal year 2011 receipts are approximately 8.9 percent ahead of receipts for the first four months of fiscal year 2010. Disbursements for fiscal year 2011 are approximately 4.8 percent above disbursements for the same time period of fiscal year 2010.

Unemployment Compensation Fund

Due to the declining revenues and rising unemployment claims resulting from the challenging economic climate, the State has sought federal assistance in meeting its unemployment benefit costs. In accordance with Title XII of the Social Security Act, the State has drawn repayable advances in the Unemployment Trust Fund of $2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during fiscal years 2009 and 2010. 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.