Ohio Office of Budget and Management

State of Ohio

John Kasich

Governor

OHIO

COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2011

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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, 2011. 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 2011, net assets of the State's primary government increased by $2.64 billion and ended fiscal year 2011 with a balance of $22.84 billion. Net assets of the State's component units increased by $1.38 billion and ended fiscal year 2011 with a balance of $13.80 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2011, can be found beginning on page 9.

Fund Financial Statements
Governmental funds reported combined ending fund balances of $10.72 billion that was comprised of $164.9 million in nonspendable, $8.96 billion restricted for specific purposes, $1.19 billion committed, $1.62 billion in assigned and a $1.21 billion deficit in unassigned. Nonspendable includes inventories, noncurrent portion of loans receivables, prepaids, and advances to local governments. The purposes of the restrictions, commitments, and assigned fund balances are primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, community and economic development, capital outlay and debt service. The balances and activities of the State's governmental funds are discussed further beginning on page 13.

As of June 30, 2011, the General Fund's fund balance was approximately $2.22 billion, including $65.1 million in nonspendable, $1.08 billion in restricted fund balance, $671.2 million in committed, $1.62 billion in assigned and a $1.21 billion deficit in unassigned, as detailed in NOTE 17. The General Fund's fund balance increased by $606.9 million (exclusive of a $3.8 million increase in inventories) or 37.6 percent during fiscal year 2011. The balances and activities of the General Fund are discussed further beginning on page 14.

Proprietary funds reported net assets of $4.08 billion, as of June 30, 2011, an increase of $1.97 billion since June 30, 2010. This increase is largely due to the net increase of $1.95 billion in the Workers' Compensation Fund. The balances and activities of the proprietary funds are discussed further beginning on page 15.

Capital Assets
The carrying amount of capital assets for the State's primary government increased to $25.72 billion at June 30, 2011. The majority of the $389.5 million increase during fiscal year 2011 was the acquisition of land and highway network infrastructure. Further discussion of the State's capital assets can be found beginning on page 16.

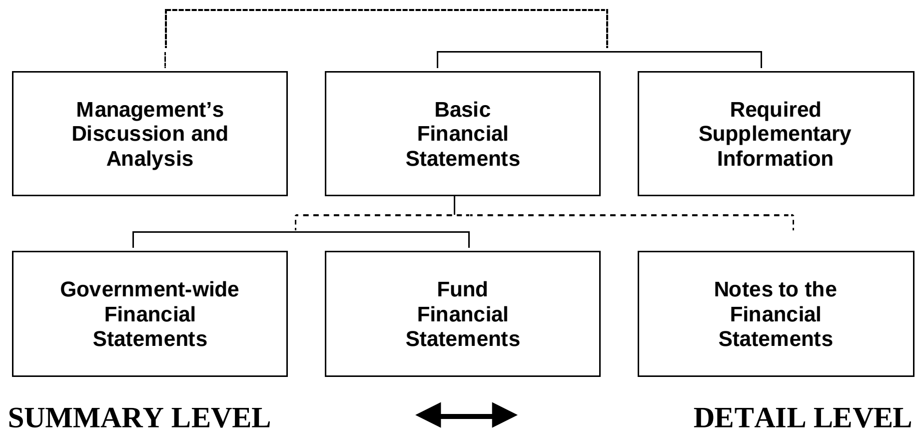
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $679.6 million or four percent during fiscal year 2011 and reported an ending balance of $17.52 billion. During the year, the State issued, at par, $1.16 billion in general obligation bonds, $358 million in revenue bonds, and $356.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $301.6 million and $243.2 million, respectively, were refunding bonds. Additional discussion of the State's bonds and certificates of participation can be found beginning on page 18.

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 52 through 145 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/net outflows of resources and liabilities/net inflows of resources — 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, respectively. 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 10 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, the Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, all of which are considered major funds. Data from the other 44 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 35 of this report while the combining fund statements and schedules can be found on pages 153 through 214.

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 36 through 43 of this report while the combining fund statements can be found on pages 215 through 223.

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 44 through 47 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets. During fiscal year 2011, as shown in the table below, the combined net assets of the State's primary government increased $2.64 billion or 13.1 percent. Net assets reported for governmental activities increased $668.2 million or 3.7 percent and business-type activities increased $1.97 billion, or 93.8 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, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	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	$ 18,125,869	$ 27,813,243	$ 45,939,112	$ 17,955,313	$ 25,718,770	$ 43,674,083
Capital assets	25,559,678	160,302	25,719,980	25,148,054	182,446	25,330,500
Total Assets	43,685,547	27,973,545	71,659,092	43,103,367	25,901,216	69,004,583
Total Deferred Outflows of Resources	36,708	-	36,708	42,770	-	42,770
Liabilities						
Current and Other Liabilities..	6,659,174	145,688	6,804,862	7,550,457	89,187	7,639,644
Noncurrent Liabilities...........	18,298,713	23,748,969	42,047,682	17,499,511	23,707,252	41,206,763
Total Liabilities................	24,957,887	23,894,657	48,852,544	25,049,968	23,796,439	48,846,407
Net Assets:						
Invested in Capital Assets, Net of Related Debt	23,157,156	54,430	23,211,586	22,578,727	51,578	22,630,305
Restricted........................	3,856,555	5,844,952	9,701,507	2,902,122	86,616	2,988,738
Unrestricted......................	(8,249,343)	(1,820,494)	(10,069,837)	(7,384,680)	1,966,583	(5,418,097)
Total Net Assets.............	$ 18,764,368	$ 4,078,888	$ 22,843,256	$ 18,096,169	$ 2,104,777	$ 20,200,946

As of June 30, 2011, 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 $23.21 billion. Restricted net assets were approximately $9.70 billion, resulting in a $10.07 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 $8.25 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 $10.13 billion of outstanding general obligation and special obligation debt at June 30, 2011, $7.15 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, 2011, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $464.1 million (see NOTE 14A.) and a $708.2 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 2011 and 2010, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2011
With Comparatives for the Fiscal Year Ended June 30, 2010
(dollars in thousands)

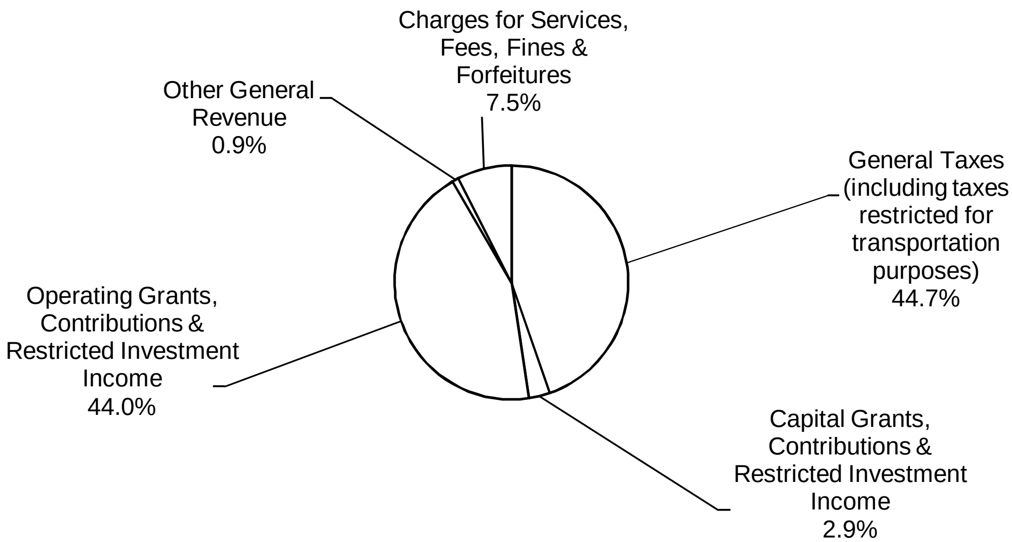
	Fiscal Year 2011			Fiscal Year 2010		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures	$ 3,776,993	$ 6,957,195	$ 10,734,188	$ 4,114,638	$ 6,722,648	$ 10,837,286
Operating Grants, Contributions and						
Restricted Investment Income/(Loss)	22,041,872	5,002,794	27,044,666	20,839,250	5,403,784	26,243,034
Capital Grants, Contributions and						
Restricted Investment Income/(Loss)	1,465,484	-	1,465,484	1,241,422	-	1,241,422
Total Program Revenues	27,284,349	11,959,989	39,244,338	26,195,310	12,126,432	38,321,742
General Revenues:						
General Taxes	20,626,711	-	20,626,711	18,941,470	-	18,941,470
Taxes Restricted for Transportation	1,759,421	-	1,759,421	1,766,204	-	1,766,204
Tobacco Settlement	334,665	-	334,665	336,259	-	336,259
Escheat Property	101,289	-	101,289	160,755	-	160,755
Unrestricted Investment Income	2,688	1,184	3,872	(52,677)	-	(52,677)
Other	1,323	-	1,323	592	48	640
Total General Revenues	22,826,097	1,184	22,827,281	21,152,603	48	21,152,651
Total Revenue	50,110,446	11,961,173	62,071,619	47,347,913	12,126,480	59,474,393
Expenses:						
Primary, Secondary and Other Education	12,126,435	-	12,126,435	12,259,233	-	12,259,233
Higher Education Support	2,726,016	-	2,726,016	2,771,611	-	2,771,611
Public Assistance and Medicaid	20,111,691	-	20,111,691	18,828,082	-	18,828,082
Health and Human Services	4,295,483	-	4,295,483	4,003,033	-	4,003,033
Justice and Public Protection	3,184,345	-	3,184,345	3,077,704	-	3,077,704
Environmental Protection and						
Natural Resources	350,870	-	350,870	416,071	-	416,071
Transportation	2,186,332	-	2,186,332	2,187,406	-	2,187,406
General Government	792,728	-	792,728	620,090	-	620,090
Community and Economic Development	4,479,010		4,479,010	4,491,643		4,491,643
Interest on Long-Term Debt						
(excludes interest charged as						
program expense)	134,888	-	134,888	133,335	-	133,335
Workers' Compensation	-	2,354,296	2,354,296	-	2,861,222	2,861,222
Lottery Commission	-	1,911,105	1,911,105	-	1,816,213	1,816,213
Unemployment Compensation	-	4,094,207	4,094,207	-	5,605,830	5,605,830
Ohio Building Authority	-	22,076	22,076	-	22,492	22,492
Tuition Trust Authority	-	79,671	79,671	-	81,119	81,119
Liquor Control	-	507,800	507,800	-	489,087	489,087
Underground Parking Garage	-	3,171	3,171	-	3,755	3,755
Office of Auditor of State	-	69,185	69,185	-	70,637	70,637
Total Expenses	50,387,798	9,041,511	59,429,309	48,788,208	10,950,355	59,738,563
Surplus/(Deficiency) Before Transfers	(277,352)	2,919,662	2,642,310	(1,440,295)	1,176,125	(264,170)
Transfers - Internal Activities	945,551	(945,551)	-	978,327	(978,327)	-
Change In Net Assets	668,199	1,974,111	2,642,310	(461,968)	197,798	(264,170)
Net Assets, July 1	18,096,169	2,104,777	20,200,946	18,558,137	1,906,979	20,465,116
Net Assets, June 30	$ 18,764,368	$ 4,078,888	$ 22,843,256	$ 18,096,169	$ 2,104,777	$ 20,200,946

Governmental Activities

Expenses exceeded revenues during fiscal year 2011 for governmental activities. When combined with transfers from the State's business-type activities, net assets for governmental activities increased from $18.10 billion, at July 1, 2010, to $18.76 billion, at June 30, 2011, or $668.2 million. Revenues for fiscal year 2011 in the amount of $50.11 billion were 5.8 percent higher than those reported for fiscal year 2010. General taxes (including taxes restricted for transportation purposes) comprised 44.7 percent of fiscal year 2011 total revenues and increased by 8.1 percent compared to fiscal year 2010. Operating grants, contributions and restricted investment income, making up 44 percent of total revenue, increased by 5.8 percent compared to fiscal year 2010. Fiscal year 2011 net transfers of $945.6 million, decreased by 3.4 percent over fiscal year 2010. Reported expenses of $50.39 billion represented an increase of 3.3 percent compared to fiscal year 2010.

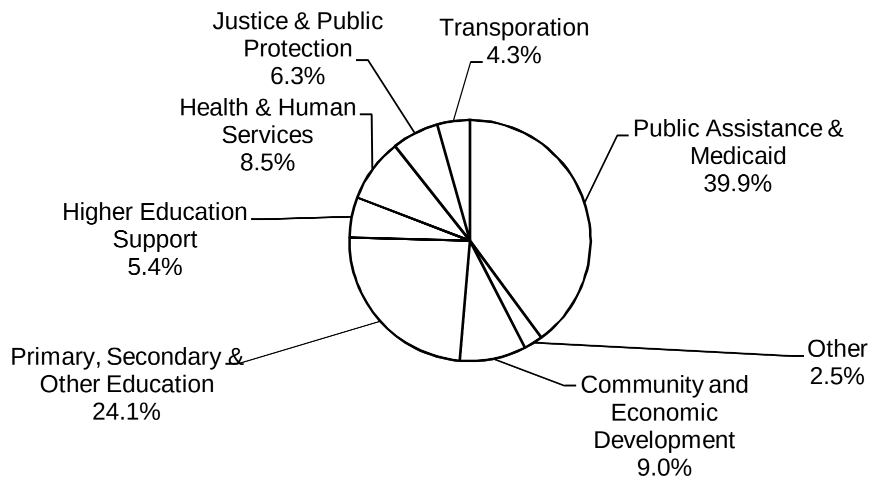
The following charts illustrate revenue by sources and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2011.

Governmental Activities — Sources of Revenue
Fiscal Year 2011



Total FY 11 Revenue for Governmental Activities = $50.11 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2011



Total FY 11 Program Expenses for Governmental Activities = $50.39 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, 2011 and 2010. 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, 2011
With Comparatives for the Fiscal Year Ended June 30, 2010
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2011			
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……………	$ 12,126,435	$ 9,297,999	76.7%	18.5%
Higher Education Support……………………………..	2,726,016	2,407,828	88.3%	4.8%
Public Assistance and Medicaid………………………	20,111,691	3,991,432	19.8%	7.9%
Health and Human Services…………………………..	4,295,483	1,214,661	28.3%	2.4%
Justice and Public Protection………………………….	3,184,345	1,632,939	51.3%	3.2%
Environmental Protection and Natural Resources…..	350,870	46,697	13.3%	0.1%
Transportation………………………………………….	2,186,332	552,843	25.3%	1.1%
General Government………………………………….	792,728	407,420	51.4%	0.8%
Community and Economic Development……………..	4,479,010	3,416,742	76.3%	6.8%
Interest on Long-Term Debt…………………………..	134,888	134,888	100.0%	0.3%
Total Governmental Activities…………………………	$ 50,387,798	$ 23,103,449	45.9%	45.9%

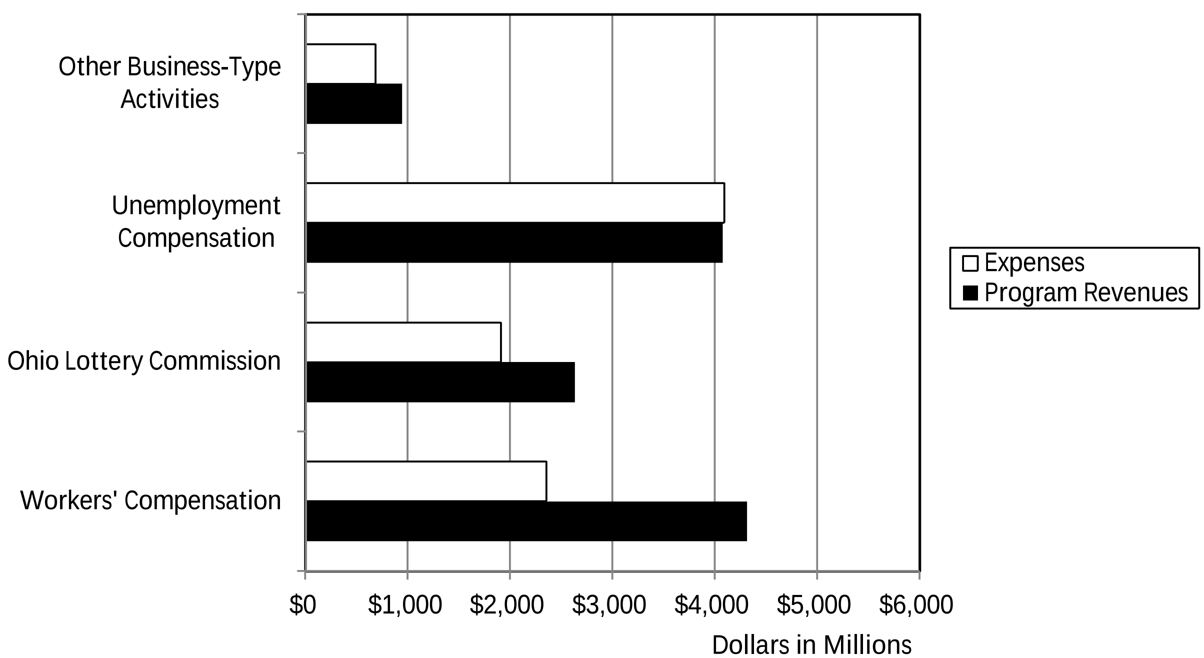
	For the Fiscal Year Ended June 30, 2010			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses—All Programs**
Primary, Secondary and Other Education……………	$ 12,259,233	$ 9,644,102	78.7%	19.8%
Higher Education 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%

Business-Type Activities

The State's enterprise funds reported net assets of $4.08 billion, as of June 30, 2011, as compared to $2.10 billion in net assets, as of June 30, 2010, an increase of 93.8 percent. The primary increase in net assets for the business-type activities was the Workers' Compensation Fund, which reported net assets of $5.77 billion, as of June 30, 2011, as compared to $3.83 billion, as of June 30, 2010, a $1.94 billion increase. The Unemployment Compensation Fund and the Lottery Commission, however, reported decreases in net assets during fiscal year 2011. The Lottery Commission Fund reported net assets of $150.7 million, as of June 30, 2011, as compared to $168.6 million, as of June 30, 2010, a $17.9 million decrease. The net assets in the Unemployment Compensation Fund decreased $21.3 million from $(1.91) billion, as of June 30, 2010, to $(1.93) billion, as of June 30, 2011.

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

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2011



Additional analysis of the Business-Type Activities' revenues and expenses is included with the discussion of the Proprietary Funds beginning on page 15.

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, 2011 and June 30, 2010 (dollars in thousands). During the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the State reclassified funds within the governmental funds categories. The fiscal year 2010 amounts in the following table have not been restated for the effects of GASB Statement No. 54.

	As of and for the Fiscal Year Ended June 30, 2011			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance	$(1,208,029)	$0	$(25)	$(1,208,054)
Total Fund Balance	2,223,608	5,638,892	2,860,682	10,723,182
Total Revenues	30,914,677	9,860,521	9,202,236	49,977,434
Total Expenditures	29,837,914	9,880,100	11,537,549	51,255,563

	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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2011, General Fund revenue and expenditures increased by $6.97 billion and $6.12 billion, respectively. Other sources and uses showed a decline of net uses of $44.5 million when compared with fiscal year 2010. The fund balance increased by $606.9 million (exclusive of a $3.8 million increase in inventories) or 37.6 percent.

As a result of the implementation of GASB Statement No. 54, the General Fund is reporting balances and activities for fiscal year 2011 that were previously reported within the special revenue funds. Fiscal year 2010 amounts have not been restated for the effects of this implementation thus creating the substantial increases to revenue and expenditures in the General Fund.

General Fund Budgetary Highlights

The State ended the second year of its 2010-11 biennial budget on June 30, 2011, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $1.81 billion. Total budgetary sources for the General Fund (including $3.14 billion in transfers from other funds) in the amount of $36.32 billion were above final estimates by $351.9 million or just less than one percent during fiscal year 2011. Total tax receipts were above final estimates by $973.3 million or 4.7 percent.

Total budgetary uses for the General Fund (including $3.34 billion in transfers to other funds) in the amount of $36.94 billion were below final estimates by $2.75 billion or 6.9 percent for fiscal year 2011. There was no budget stabilization designation at June 30, 2010, for use in balancing the final fiscal year 2011 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 (excluding the American Recovery and Reinvestment Act of 2009 referred to below) 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) at the seven horse racing tracks in the State. OBM estimated the VLT's would result in an approximate $851 million net increase in revenues for the biennium ($285 million in fiscal year 2010 and $566 million in fiscal year 2011) after taking into account offsetting effects of the VLT's on other Lottery revenues. (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 but on July 1, 2010, the committee for the petitioners withdrew the referendum from the ballot).
- $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. (On August 11, 2009, a trial court ruled in favor of the plaintiff and ordered that these monies remain in that endowment fund and be used for the purpose of reducing tobacco use. The State appealed the ruling and on December 31, 2009, the court of appeals ruled in favor of the State and reversed the trial court's order. The Ohio Supreme Court affirmed court of appeals decision in favor of the State on December 22, 2010).
- $1.04 billion of "one-time" revenues or savings ($640 million in fiscal year 2010 and $396 million in fiscal year 2011), 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; $272 million in savings through a two week unpaid "furlough" for State employees during each year of the biennium; $84 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 September 2010, the federal government awarded the State $518.6 million of enhanced Federal Medical Assistance Payments funding (eFMAP). Additionally, $361.2 million was granted to the Ohio school districts for teacher salaries and personnel costs for primary and secondary education (Ed Jobs).

In response to the above referenced September 2009 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 estimated that the measure would result in $844 million of additional State GRF tax revenues in the current biennium.

The Act for the 2010-11 biennium created a six member (three from each of the House and Senate) Budget Planning and Management Commission (BPMC) to "study and make recommendations that are designed to provide relief to the State during the current difficult fiscal and economic period." The BPMC released two reports – one from its three Republican members dated November 30, 2010, and one from its three Democratic members dated December 8, 2010. Both reports contained estimates of "non-recurring" revenues reflected in the 2010-11 budget, as enacted, ranging from $4.89 billion in the GRF to $8.34 billion for all GRF and non-GRF funds. These estimates included the effect of the postponement of the final installment of the personal income tax reduction.

The State ended fiscal year 2011 with a GRF cash balance of $844.5 million and a GRF budgetary fund balance of $430.7 million. In addition to meeting the State's requirement to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2011 GRF revenues, the State deposited $246.9 million into the Budget Stabilization Fund in early fiscal year 2012.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund* had a fund balance of $420.5 million at June 30, 2011, an increase of $79.6 million, or 23.4 percent, compared to fiscal year 2010. This increase in fund balance is due to revenues exceeding expenditures by $48.9 million, with other financing sources and uses totaling $72.7 million.

Revenue for Licenses, Permits and Fees decreased $115.2 million, or 11.4 percent, over fiscal year 2010. A reduction to hospital franchise fee rates was made halfway through the biennium due to improving budgets. Federal Government revenue decreased by $569.2 million, or 6.3 percent, over fiscal year 2010 due to the phase out of ARRA stimulus funding.

Public assistance and Medicaid expenditures decreased $700.5 million, or 7.5 percent, compared to the previous fiscal year. This decrease in expenditures was due in part to the reduction in hospital supplemental payments resulting from the reduction of hospital franchise fees. Also contributing to the decrease was the final phase of a managed care tax structure change causing deposits to be shifted to the GRF along with related expenditures. The reduction in ARRA funding also played a role in decreased expenditures from the *Job, Family and Other Human Services Fund*.

The decrease in net transfers of $14.6 million is the result of the unusually large transfer from the State's Unemployment Compensation Enterprise Fund in fiscal year 2010 that supplemented higher unemployment compensation administrative costs.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2011, totaled approximately $5.22 billion dollars, a decrease of $82.6 million or 1.6 percent since June 30, 2010. Tobacco settlement revenue was $15.1 million less than the amount received for fiscal year 2010. This revenue has been decreasing in recent years due to declining cigarette consumption and due to tobacco companies depositing money into the disputed account, as described in Note 19E. An increase in investment income of $1.9 million and a decrease of $6.3 million in Debt Service expenditures, related to changing debt service requirements for the bonds, somewhat offset the revenue decrease. However, as has been the case for several years, the fund balance continues to decline within this fund as a result of the total expenditures being in excess of revenue collected during the fiscal year.

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 $1.94 billion increase in net assets was primarily due to an increase in investment income and a decrease in benefits and claims expenses. For fiscal year 2011, investment income was $2.36 billion compared to $2.05 billion in fiscal year 2010 resulting in a 15.4 percent increase. The investment portfolio earned an unaudited net return of 12.4 percent in fiscal year 2011 compared to 12 percent in fiscal year 2010.

During fiscal year 2011, the benefit and claims expense decreased by $498 million to $2.24 billion but still exceeded revenue of $1.94 billion from premiums and assessments by $303.8 million. The variance of $303.8 million is due to a decrease in revenue from premiums and assessments of $183.2 million and the decrease in benefits and claims expense during fiscal year 2011. The decrease in premium and assessment income is the result of a 3.9 percent reduction to the premium for the majority of Ohio's private employers and a 17 percent reduction for public employer tax districts. In addition, the premium and assessment income was also reduced by $6.1 million in fiscal year 2011 compared to $1.1 million in fiscal year 2010 as a result of securing reinsurance to protect assets in the event of catastrophic events. Benefits and claims expenses decreased due to lower estimates for future medical expenses attributable to lower claims frequencies and a decrease in the medical inflation rate.

For fiscal year 2011, the *Lottery Commission Fund* reported $721.3 million in net income before transfers of $738.8 million and $335 thousand to the Education and General funds, respectively. The $17.6 million or 10.6 percent decrease in the fund's net assets to $150.7 million, as of June 30, 2011, was predominately due to an adjustment directly related to the investment portfolio. Investment income decreased $43.7 million or 64.5 percent during fiscal year 2011 due to this change.

Ticket sales increased approximately 4.4 percent from $2.49 billion in fiscal year 2010 to $2.6 billion in fiscal year 2011. The Ohio Lottery benefited from a full 12 months of the Keno/ Booster product resulting in an online sales increase of $27 million or 2.4 percent. Prizes expenses were $1.6 billion as of June 30, 2011, compared to $1.51 billion, as of June 30, 2010, an increase of approximately $89.3 million or 5.9 percent. This increase was in proportion to ticket sales.

The $21.3 million decrease in net assets in the *Unemployment Compensation Fund* is due to the declining economic factors in Ohio. Even though there was a decrease in the unemployment rate in Ohio, it averaged 9.3 percent in fiscal year 2011. Due to the decrease in the unemployment rate from an average of 10.5 percent in fiscal year 2010, the State's benefits and claims expense decreased by $1.51 billion or 27 percent from the previous fiscal year. While the State of Ohio's benefits and claims expense decreased, the State received less money from the federal government. During fiscal year 2011, the State received $2.52 billion from the federal government compared to $3.23 billion in fiscal year 2010 resulting in a 21.9 percent decrease in federal funding. In addition, the expenses were also slightly offset by an increase of $272.1 million in premium and assessment income.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011 and June 30, 2010, the State had invested $25.72 billion and $25.33 billion, respectively, net of accumulated depreciation of $3.11 billion and $2.94 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, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,082,738	$ 11,994	$ 2,094,732	$ 1,972,225	$ 11,994	$ 1,984,219
Buildings	1,779,018	75,039	1,854,057	1,867,937	80,790	1,948,727
Land Improvements	181,204	10	181,214	189,624	11	189,635
Machinery and Equipment	274,472	71,335	345,807	196,188	87,524	283,712
Vehicles	125,927	1,924	127,851	118,412	2,127	120,539
Infrastructure:						
Highway Network:						
General Subsystem	8,544,734	-	8,544,734	8,492,573	-	8,492,573
Priority Subsystem	7,895,454	-	7,895,454	7,654,329	-	7,654,329
Bridge Network	2,937,912	-	2,937,912	2,843,787	-	2,843,787
Parks, Recreation, and						
Natural Resources System .	83,732	-	83,732	67,606	-	67,606
	23,905,191	160,302	24,065,493	23,402,681	182,446	23,585,127
Construction-in-Progress	1,654,487	-	1,654,487	1,745,373	-	1,745,373
Total Capital Assets, Net	$ 25,559,678	$ 160,302	$25,719,980	$ 25,148,054	$182,446	$25,330,500

During fiscal year 2011, the State recognized $346.6 million in annual depreciation expense relative to its governmental capital assets as compared with $314.2 million in annual depreciation expense recognized in fiscal year 2010. The State also recognized $32.7 million in annual depreciation expense relative to its business-type capital assets as compared with $31.3 million in annual depreciation expense recognized in fiscal year 2010.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2011 totaling approximately $550.5 million, as compared with $639.3 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 1.5 percent (approximately a 1.6 percent increase for governmental activities and a 12.1 percent decrease for business-type activities). As is further detailed in NOTE 19D. of the notes to the financial statements, the State had $105.8 million in major construction commitments (unrelated to infrastructure), as of June 30, 2011, as compared with the $140.8 million balance reported for June 30, 2010.

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 42,991 in lane miles of highway (13,059 in lane miles for the priority highway subsystem and 29,932 in lane miles for the general highway subsystem) and approximately 105.7 million square feet of deck area that comprises 14,234 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 2010, indicates that only 2.2 percent and 3.9 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2009, only 2 percent and 4.5 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 2010, indicates that only 3.8 percent and .04 percent of the number of square feet of bridge deck area were considered to be in "fair" and "poor" conditions, respectively. For calendar year 2009, 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 fiscal year 2011, total actual maintenance and preservation costs for the priority and general subsystems were $420 million and $342.2 million, respectively, compared to estimated costs of $406.1 million for the priority system and $258.4 million for the general system, while total actual maintenance and preservation costs for the bridge network was $409.7 million compared to estimated costs of $433.6 million. For the previous fiscal year, 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. Overall, the State's costs for actual maintenance and preservation for highway infrastructure assets 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 this report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

As of June 30, 2011 and June 30, 2010, the State had total debt of approximately $17.52 billion and $16.84 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2011
With Comparatives as of June 30, 2010
(dollars in thousands)

	As of June 30, 2011			As of June 30, 2010		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 7,872,276	$ -	$ 7,872,276	$ 7,343,289	$ -	$ 7,343,289
Revenue Bonds and Notes	7,156,025	47,889	7,203,914	6,891,331	64,200	6,955,531
Special Obligation Bonds	2,260,853	-	2,260,853	2,338,094	-	2,338,094
Certificates of Participation	179,935	-	179,935	200,428	-	200,428
Total Debt	$17,469,089	$47,889	$17,516,978	$16,773,142	$64,200	$16,837,342

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 2011, the State issued, at par, $1.16 billion in general obligation bonds, $358 million in revenue bonds, and $356.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $301.6 million and $243.2 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 four percent (a 4.2 percent increase for governmental activities and a 25.4 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 (ratings are in a range)	B+ to BBB+	B3 to Aaa	BB- to BBB	Pledged Receipts from the Tobacco Master Settlement Agreement
Business-Type Activities:				
Bureau of Workers' Compensation	AA	Aa3	AA	Workers' Compensation Enterprise Fund

On July 15, 2011, S&P revised its "credit outlook" on the State from "negative" to "stable." A credit outlook is an indication of the pressure on the rating over the near-to-intermediate term and is not a precursor to a rating change.

The ratings and rating 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 or outlook may be obtained from the respective rating agency. Generally, the rating agencies base their rating on submitted information and on their own investigations, studies, and assumptions. There can be no assurance that the ratings or outlooks assigned will continue for any given time. Rating agencies may lower or withdraw a rating at any time, if in its judgment circumstances so warrant.

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 2011, leading economic indicators continue to show weak but not recession activity both nationally and in Ohio. Following several months of declines in the State's unemployment rate during fiscal year 2011, the unemployment rate in Ohio has increased to 9.1 percent as of October 2011.

Nationally, real gross domestic product (GDP) accelerated in the third quarter of calendar year 2011, rising 2.5 percent and has temporarily quieted concerns about recession. The national labor market picture brightened further in October 2011, as the level of employment increased by 80 thousand jobs and the August and September 2011 gains were revised upward. The national unemployment rate edged down to 9.0 percent, near its level at the beginning of the calendar year.

The 2012-13 Biennial Budget
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.

The 2012-13 biennial (beginning July 1, 2011) appropriations bill (the Act) was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior budget biennium including amounts received under ARRA, the Act includes targeted spending cuts across most State Agencies and major new Medicaid reform and cost containment measures. The Act provides for total GRF biennial appropriations of approximately $55.78 billion, an 11 percent increase from the 2010-11 GRF biennial expenditures, and total GRF revenue of approximately $56.07 billion, a six percent increase from the 2010-11 GRF biennial revenues.

GRF appropriations for major program categories compared to the 2010-11 biennium actual GRF spending reflect increases of 30 percent for Medicaid and three percent for elementary and secondary education; decreases of nine percent for higher education and eight percent for mental health and developmental disabilities; and flat funding for corrections and youth services. The Act also reflects the restructuring of $440 million of fiscal year 2012 GRF debt service into fiscal years 2013 through 2025. Approximately three-quarters of this restructuring was accomplished by the July 28, 2011, Ohio Public Facilities Commission's issuance of $488.8 million in refunding bonds, with the remainder of the restructuring occurring through the September 15, 2011, Ohio Building Authority's issuance of $149.3 million in refunding bonds.

Major new sources of revenues, expenditure savings, and tax law changes reflected in the Act include:

- Transfer of the State's spirituous liquor system to JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training and recruitment of business to the State. As a result of this transfer, the State anticipates receiving a $500 million one-time payment from JobsOhio in fiscal year 2012. The State will forgo annual deposits into the GRF from net liquor profits. For fiscal year 2011, those deposits totaled $153 million. Litigation has been filed that challenges certain aspects of JobsOhio and the law authorizing its creation.
- Sale of six State-owned prison facilities to private operators. These sales were expected to result in a net payment to the GRF of $75 million. On September 1, 2011, the State announced that it is opting to sell only one of the facilities after considering proposals for the sale of five of the facilities. The sale of this facility will accomplish the desired saving for the 2012-13 biennium. Litigation was filed to challenge the au-

thorization in the Act to sell these facilities. On August 31, 2011, the Court ruled in favor of the State. These rulings may be subject to appeal in the future.

- Reductions to the local government fund allocations. Allocations to local governments will be reduced by $111 million in fiscal year 2012 and $340 million in fiscal year 2013. Beginning in fiscal year 2014, allocations will be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with fiscal year 2013 GRF tax revenues).
- Reductions to the public library fund allocations. Allocations to public libraries will be reduced to 95 percent of fiscal year 2011 levels resulting in savings of $52.3 million in fiscal year 2012 and $102.8 million in fiscal year 2013. Beginning in fiscal year 2014, allocations will be made by committing a set percent of annual tax revenues deposited into the GRF (beginning with fiscal year 2013 GRF tax revenues).
- Accelerated phase-out of reimbursement payments, in connection with the elimination of the tangible personal property tax, for local governments and school districts. This will result in an increased share of the commercial activity tax being deposited into the GRF, approximately $293.5 million and $597.7 million for fiscal years 2012 and 2013, respectively.
- Accelerated phase-out of reimbursement payments, in connection with the electric power generation deregulations and natural gas deregulation, for local governments and school districts. This will result in a larger share of kilowatt-hour tax being reallocated to the GRF, approximately $141.6 million and $147.4 million for fiscal years 2012 and 2013, respectively. It will also result in the entire share of natural gas consumption tax being reallocated to the GRF, approximately $66 million in fiscal year 2012 and again in fiscal year 2013.
- Transfer of $235 million to the GRF from unclaimed funds and other non-GRF funds and $12 million to the GRF from a tax amnesty program.
- Implementation of the previously postponed final 4.2 percent annual decrease in State personal income tax rates.
- Elimination of the estate tax beginning January 1, 2013. In fiscal year 2010, estate tax collections totaled $285.8 million, of which $230.8 million was distributed to local governments. The remaining $55 million was deposited into the State's GRF.
- Creation of the InvestOhio income tax credit program under which investors in small businesses based in Ohio who hold their investments for at least two years may receive income tax credits.
- Creation of opportunities for cost savings through changes to the State's construction bidding procedures.

The Act also creates a $130 million Medicaid reserve fund and a $104 million Unemployment Compensation Contingency Fund. The Unemployment Compensation Contingency Fund will be used to pay interest on federal advances to the State Unemployment Compensation Fund.

General Revenue Fund

For fiscal year 2012, total fiscal year-to-date GRF receipts through October 2011 are $12.5 million below estimates but $196.8 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2011 are $268.9 million below estimates for the first four months of fiscal year 2012 and $181.6 million above expenditures for the first four months of the prior fiscal year. As of October 2011, receipts are within less than a percent of budget estimates and disbursements are within three percent of budget estimates for fiscal year 2012. Fiscal year 2012 receipts are 2.3 percent ahead of receipts for the first four months of fiscal year 2011. Disbursements for fiscal year 2012 are 1.8 percent above disbursements for the same time period of fiscal year 2011.

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. The State began accruing interest on the repayable advances balances on January 1, 2011, and made its first interest payment in September 2011 for $70.7 million. Another interest payment is due in October 2012 and is estimated at $90 million.

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.