State of Ohio
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2012

Office of Budget and Management

OBM Director Timothy S. Keen
Deputy Director Accounting James J. Kennedy CPA CISA CGFM

Prepared by OBM Division of State Accounting.

Financial Section

State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(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, 2012. 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 2012, net assets of the State's primary government increased by $2.32 billion and ended fiscal year 2012 with a balance of $25.17 billion. Net assets of the State's component units increased by $885.8 million, after prior year restatements, and ended fiscal year 2012 with a balance of $14.37 billion. Additional discussion of the State's government-wide balances and activities, as of and for the year ended June 30, 2012, can be found beginning on page 9.

Fund Financial Statements
Governmental funds reported a combined ending fund balance of $11.32 billion that was comprised of $173.7 million in nonspendable, $8.51 billion restricted for specific purposes, $1.39 billion committed, $1.67 billion in assigned, and a $416.2 million deficit in unassigned. Nonspendable includes amounts for inventories, the noncurrent portion of loans receivables, prepaids, and advances to local governments. The purposes of the restricted, committed, 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, 2012, the General Fund's fund balance was approximately $3.19 billion, including $87 million in nonspendable, $1.03 billion in restricted, $824.6 million in committed, $1.67 billion in assigned, and a $415.7 million deficit in unassigned, as detailed in NOTE 17. The General Fund's fund balance increased by $968 million (exclusive of a $1.6 million decrease in inventories) or 43.5 percent during fiscal year 2012. The balances and activities of the General Fund are discussed further beginning on page 13.

Proprietary funds reported net assets of $6.57 billion, as of June 30, 2012, an increase of $2.49 billion since June 30, 2011. This increase is largely due to the net increase of $2.05 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 $25.76 billion at June 30, 2012. The majority of the $35.7 million increase during fiscal year 2012 was the acquisition of highway network infrastructure. Further discussion of the State's capital assets can be found beginning on page 16.

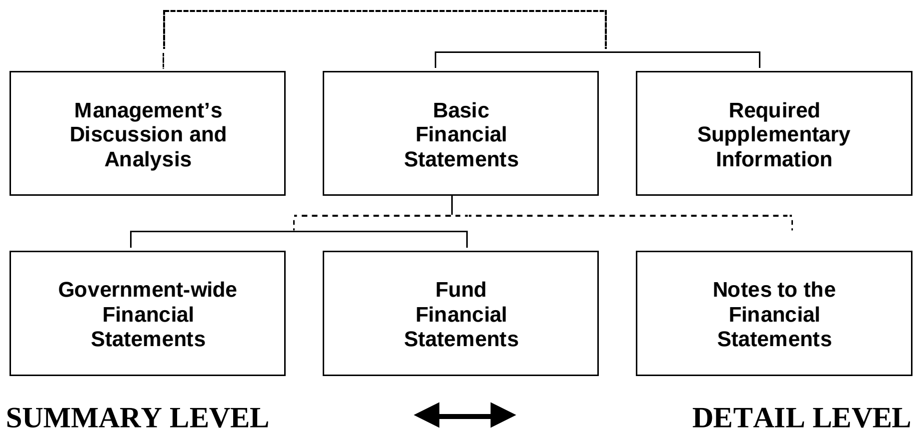
Long-Term Debt — Bonds and Notes Payable and Certificates of Participation Obligations
Overall, the carrying amount of total long-term debt for the State's primary government increased $780.1 million or 4.5 percent during fiscal year 2012 and reported an ending balance of $18.3 billion. During the year, the State issued, at par, $2.28 billion in general obligation bonds, $194 million in revenue bond anticipation notes (BANS), and $259.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $1.15 billion and $226.5 million, respectively, were refunding bonds. Additional discussion of the State's bonds, notes, 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 and schedules 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 138 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 139 through 142 of this report.

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

Figure 2 Major Features of the State of Ohio's Government-wide and Fund Financial Statements				
		Fund Statements		
	Government-wide Statements	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.	Activities the State operates similar to private businesses, such as the workers' compensation insurance program, lottery, tuition credit program, etc.	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/deferred outflows of resources and liabilities/deferred 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 other 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, which ceased operations December 31, 2011, 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 is presented as a blended component unit with its activities blended and included under governmental activities. Additionally, the Ohio Building Authority, which ceased operations December 31, 2011, is presented as a blended component unit with its 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 by 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 145 through 204.

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 by 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 205 through 213.

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 2012, as shown in the table below, the combined net assets of the State's primary government increased $2.32 billion or 10.2 percent. Net assets reported for governmental activities decreased $166.4 million or less than one percent and business-type activities increased $2.49 billion, or 61 percent. Condensed financial information derived from the Statement of Net Assets for the primary government follows.

Statement of Net Assets
As of June 30, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	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 ………………	$ 18,274,202	$ 29,364,751	$ 47,638,953	$ 18,125,869	$ 27,813,243	$ 45,939,112
Capital assets ………………………	25,611,543	144,164	25,755,707	25,559,678	160,302	25,719,980
Total Assets ………………………	43,885,745	29,508,915	73,394,660	43,685,547	27,973,545	71,659,092
Total Deferred Outflows						
of Resources …………………	$ 59,117	$ -	$ 59,117	$ 36,708	$ -	$ 36,708
Liabilities						
Current and Other Liabilities………	6,239,624	(16,211) *	6,223,413	6,659,174	145,688	6,804,862
Noncurrent Liabilities………………	19,107,231	22,956,562	42,063,793	18,298,713	23,748,969	42,047,682
Total Liabilities……………………	25,346,855	22,940,351	48,287,206	24,957,887	23,894,657	48,852,544
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt ……………	22,147,262	67,331	22,214,593	23,157,156	54,430	23,211,586
Restricted……………………………	3,579,618	7,884,358	11,463,976	3,856,555	5,844,952	9,701,507
Unrestricted…………………………	(7,128,873)	(1,383,125)	(8,511,998)	(8,249,343)	(1,820,494)	(10,069,837)
Total Net Assets…………………	$ 18,598,007	$ 6,568,564	$ 25,166,571	$ 18,764,368	$ 4,078,888	$ 22,843,256

* Internal balances exceeded current and other liabilities. (See page 22.)

As of June 30, 2012, 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 $22.21 billion. Restricted net assets were approximately $11.46 billion, resulting in an $8.51 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 $7.13 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 $10.98 billion of outstanding general obligation and special obligation debt at

June 30, 2012, $8.13 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, 2012, the State's governmental activities have significant unfunded liabilities for compensated absences in the amount of $440.4 million (see NOTE 14A.) and a $699.5 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 2012 and 2011, follows.

Primary Government
Statement of Activities
For the Fiscal Year Ended June 30, 2012
With Comparatives for the Fiscal Year Ended June 30, 2011
(dollars in thousands)

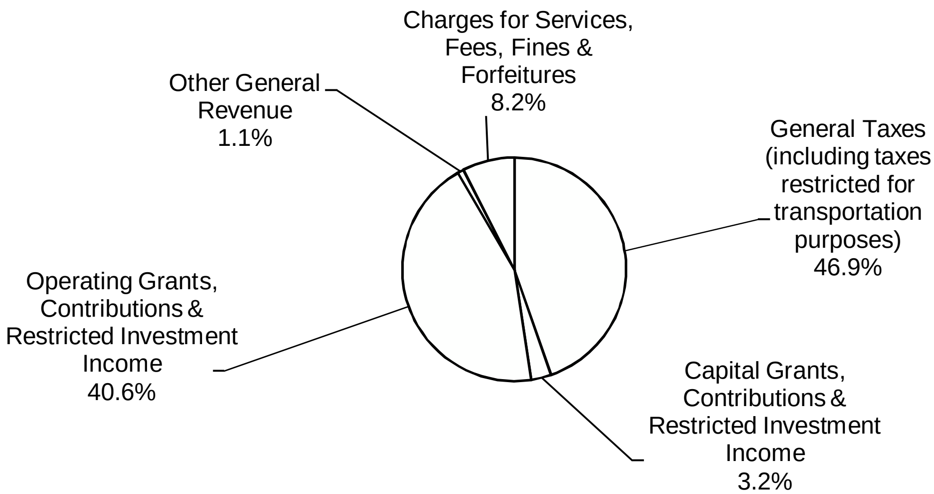
	Fiscal Year 2012			Fiscal Year 2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures	$ 4,031,628	$ 7,283,146	$ 11,314,774	$ 3,776,993	$ 6,957,195	$ 10,734,188
Operating Grants, Contributions and						
Restricted Investment Income/ (loss)	20,053,477	3,568,091	23,621,568	22,041,872	5,002,794	27,044,666
Capital Grants, Contributions and						
Restricted Investment Income/ (loss)	1,573,765	-	1,573,765	1,465,484	-	1,465,484
Total Program Revenues	25,658,870	10,851,237	36,510,107	27,284,349	11,959,989	39,244,338
General Revenues:						
General Taxes..	21,374,384	-	21,374,384	20,626,711	-	20,626,711
Taxes Restricted for Transportation	1,800,473	-	1,800,473	1,759,421	-	1,759,421
Tobacco Settlement	333,148	-	333,148	334,665	-	334,665
Escheat Property	153,556	-	153,556	101,289	-	101,289
Unrestricted Investment Income	3,702	3	3,705	2,688	1,184	3,872
Other	48,078	5	48,083	1,323	-	1,323
Total General Revenues	23,713,341	8	23,713,349	22,826,097	1,184	22,827,281
Total Revenue................................	49,372,211	10,851,245	60,223,456	50,110,446	11,961,173	62,071,619
Expenses:						
Primary, Secondary and Other Education	12,340,848	-	12,340,848	12,126,435	-	12,126,435
Higher Education Support	2,348,154	-	2,348,154	2,726,016	-	2,726,016
Public Assistance and Medicaid	21,206,515	-	21,206,515	20,111,691	-	20,111,691
Health and Human Services	3,835,369	-	3,835,369	4,295,483	-	4,295,483
Justice and Public Protection	3,202,970	-	3,202,970	3,184,345	-	3,184,345
Environmental Protection and						
Natural Resources	407,379	-	407,379	350,870	-	350,870
Transportation..	2,564,702	-	2,564,702	2,186,332	-	2,186,332
General Government	595,797	-	595,797	792,728	-	792,728
Community and Economic Development	3,867,888		3,867,888	4,479,010		4,479,010
Interest on Long term Debt						
(excludes interest charged as						
program expense)	118,902	-	118,902	134,888	-	134,888
Workers' Compensation	-	1,945,190	1,945,190	-	2,354,296	2,354,296
Lottery Commission	-	2,001,671	2,001,671	-	1,911,105	1,911,105
Unemployment Compensation	-	2,754,835	2,754,835	-	4,094,207	4,094,207
Ohio Building Authority...............................	-	13,010	13,010	-	22,076	22,076
Tuition Trust Authority	-	80,157	80,157	-	79,671	79,671
Liquor Control	-	543,729	543,729	-	507,800	507,800
Underground Parking Garage	-	3,842	3,842	-	3,171	3,171
Office of Auditor of State	-	69,183	69,183	-	69,185	69,185
Total Expenses	50,488,524	7,411,617	57,900,141	50,387,798	9,041,511	59,429,309
Surplus/ (Deficiency) Before Transfers	(1,116,313)	3,439,628	2,323,315	(277,352)	2,919,662	2,642,310
Transfers - Internal Activities......................	949,952	(949,952)	-	945,551	(945,551)	-
Change In Net Assets................................	(166,361)	2,489,676	2,323,315	668,199	1,974,111	2,642,310
Net Assets, July 1.....................................	18,764,368	4,078,888	22,843,256	18,096,169	2,104,777	20,200,946
Net Assets, June 30..................................	$ 18,598,007	$ 6,568,564	$ 25,166,571	$ 18,764,368	$ 4,078,888	$ 22,843,256

Governmental Activities

Expenses exceeded revenues during fiscal year 2012 for governmental activities. Although partially offset with transfers from the State's business-type activities, net assets for governmental activities decreased from $18.76 billion, at July 1, 2011, to $18.6 billion, at June 30, 2012, or $166.4 million. Revenues of $49.37 billion for fiscal year 2012 were 1.5 percent lower than those reported for fiscal year 2011. General taxes (including taxes restricted for transportation purposes) comprised 46.9 percent of fiscal year 2012 total revenues and increased by 3.5 percent compared to fiscal year 2011. Operating grants, contributions and restricted investment income, making up 40.6 percent of total revenues, decreased by nine percent compared to fiscal year 2011. Fiscal year 2012 net transfers of $950 million and expenses of $50.49 billion both reflect increases of less than one percent over fiscal year 2011.

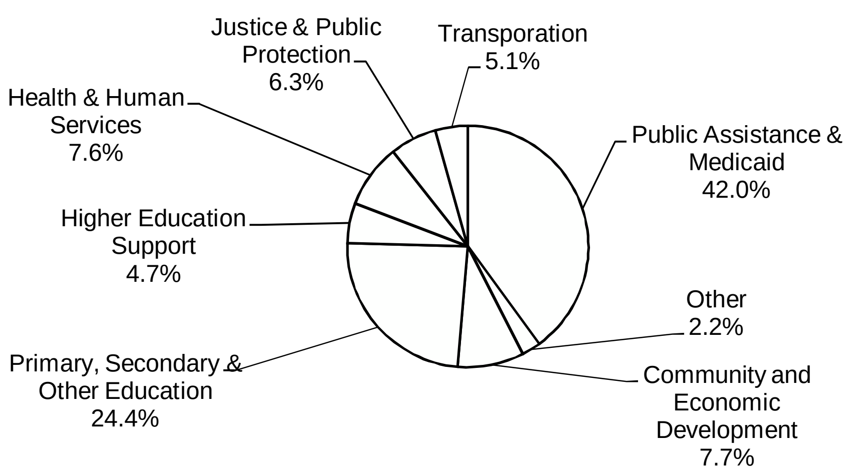
The following charts illustrate revenues by source and expenses by program of governmental activities as percentages of total revenues and program expenses, respectively, reported for the fiscal year ended June 30, 2012.

Governmental Activities — Sources of Revenue
Fiscal Year 2012



Total FY 12 Revenue for Governmental Activities = $49.37 Billion

Governmental Activities — Expenses by Program
Fiscal Year 2012



Total FY 12 Program Expenses for Governmental Activities = $50.49 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, 2012 and 2011. 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. This cost is essentially funded with the State's general revenues from taxes, tobacco settlement, and escheat property.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Year Ended June 30, 2012
With Comparatives for the Fiscal Year Ended June 30, 2011
(dollars in thousands)

	For the Fiscal Year Ended June 30, 2012			
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……………	$ 12,340,848	$ 10,016,493	81.2%	19.8%
Higher Education Support……………………………..	2,348,154	2,320,263	98.8%	4.6%
Public Assistance and Medicaid………………………	21,206,515	5,368,909	25.3%	10.6%
Health and Human Services…………………………..	3,835,369	946,317	24.7%	1.9%
Justice and Public Protection………………………….	3,202,970	2,058,956	64.3%	4.1%
Environmental Protection and Natural Resources…..	407,379	109,574	26.9%	0.2%
Transportation………………………………………….	2,564,702	847,524	33.0%	1.7%
General Government..………………..………………	595,797	20,614	3.5%	0.1%
Community and Economic Development……………..	3,867,888	3,022,102	78.1%	6.0%
Interest on Long-Term Debt…………………………..	118,902	118,902	100.0%	0.2%
Total Governmental Activities…………………………	$ 50,488,524	$ 24,829,654	49.2%	49.2%

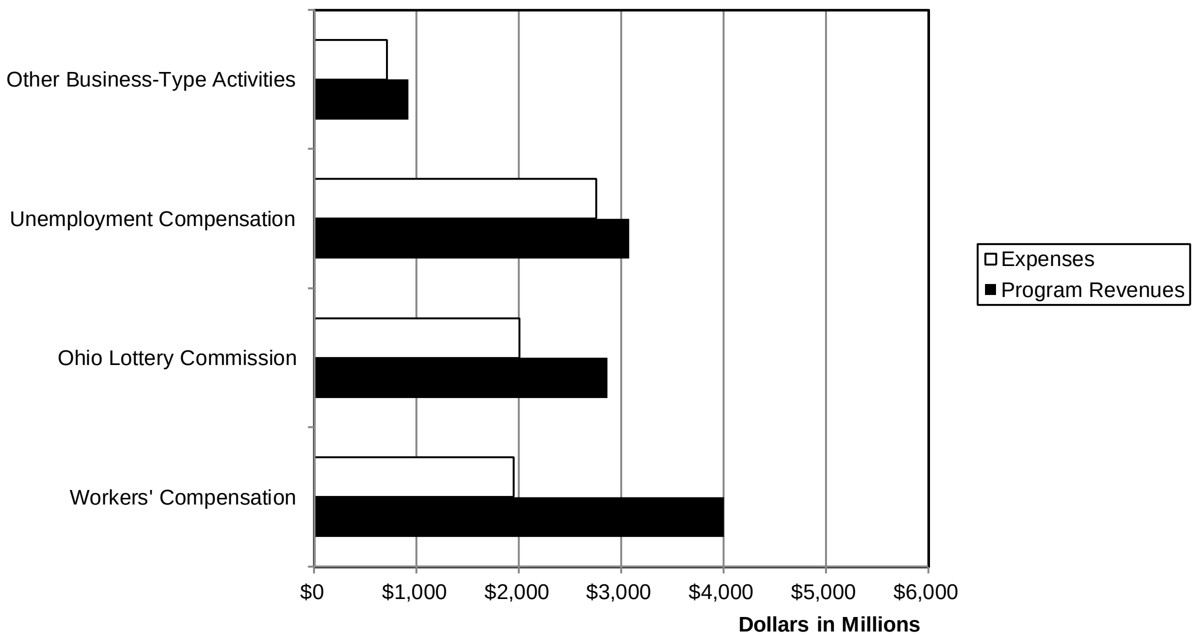
	For the Fiscal Year Ended June 30, 2011			
Program	**Program Expenses**	**Net Cost of Program**	**Net Cost as Percentage of Total Expenses for Program**	**Net Cost as Percentage of Total Expenses—All Programs**
Primary, Secondary and Other Education……………	$ 12,126,435	$ 9,297,999	76.7%	18.5%
Higher Education 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%

Business-Type Activities

The State's enterprise funds reported net assets of $6.57 billion, as of June 30, 2012, as compared to $4.08 billion in net assets, as of June 30, 2011, an increase of 61 percent. The primary cause for the increase in business-type activities' net assets was the Workers' Compensation Fund, which reported net assets of $7.82 billion, as of June 30, 2012, as compared to $5.77 billion, as of June 30, 2011, a $2.05 billion increase. The Lottery Commission and the Unemployment Compensation Fund also reported increases in net assets during fiscal year 2012. The Lottery Commission Fund reported net assets of $238.5 million, as of June 30, 2012, as compared to $150.7 million, as of June 30, 2011, an $87.8 million increase. The net assets in the Unemployment Compensation Fund increased $313.8 million from $(1.93) billion, as of June 30, 2011, to $(1.61) billion, as of June 30, 2012.

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

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2012



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, 2012 and June 30, 2011 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2012			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ (415,658)	$ (547)	$ -	$ (416,205)
Total Fund Balance...	3,189,993	5,340,400	2,786,073	11,316,466
Total Revenues	30,928,235	9,331,664	9,037,918	49,297,817
Total Expenditures..	29,972,837	9,651,271	11,553,067	51,177,175

	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 (Deficit)	$ (1,208,029)	$ -	(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

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2012, General Fund revenue and expenditures increased by $13.6 million and $134.9 million, respectively. Other sources and uses showed an increase of net sources of $482.4 million when compared with fiscal year 2011. Higher personal income tax revenue, increased non-auto sales and use tax revenues from expanded Medicaid Health Insuring Corporations collections, and debt issuance proceeds offset decreased federal funding and increased spending for Public Assistance and Medicaid. Total fund balance at June 30, 2012, increased by $968 million (exclusive of a $1.6 million decrease in inventories) or 43.5 percent.

General Fund Budgetary Highlights

The State ended the first year of its 2012-13 biennial budget on June 30, 2012, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $2.33 billion. Total budgetary sources for the General Fund (including $1.24 billion in transfers from other funds) in the amount of $33.95 billion were below final estimates by $648 million or 1.9 percent during fiscal year 2012. Total tax receipts were above final estimates by $399 million or 1.8 percent.

Total budgetary uses for the General Fund (including $1.75 billion in transfers to other funds) in the amount of $34.55 billion were below final estimates by $2.39 billion or 6.5 percent for fiscal year 2012. There was no budget stabilization designation at June 30, 2011, for use in balancing the final fiscal year 2012 budget.

The appropriations act (Act) for the 2012-13 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2011. To address the use of non-recurring funding sources in the prior budget biennium including amounts received under the American Recovery and Reinvestment Act (ARRA), the Act included targeted spending cuts across most State Agencies and major new Medicaid reform and cost containment measures. The Act provided for GRF biennial appropriations of approximately $55.78 billion, an 11 percent increase from the 2010-11 GRF biennial expenditures, and GRF biennial estimated 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 reflected 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 reflected the restructuring of $440 million of fiscal year 2012 GRF debt service into fiscal years 2013 through 2025.

The Act authorized the transfer of the State's spirituous liquor distribution and merchandising operations to JobsOhio Beverage Systems, an Ohio nonprofit corporation, the sole member of which is JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training, and the recruitment of business to the State. In consideration of this transfer, the State anticipated receiving a $500 million one-time payment from JobsOhio in fiscal year 2012 and would have forgone annual deposits to the GRF from net liquor profits. The transfer did not occur in fiscal year 2012 and the State did not receive the anticipated $500 million one-time payment during fiscal year 2012; however, annual net liquor profits of $92.5 million were deposited into the GRF.

The Act also authorized the sale of five State-owned prison facilities to private operators. On September 1, 2011, the State announced that it opted to sell only one of the facilities. Litigation has been filed that challenges the authorization in the Act to sell the facilities.

Additional expenditure savings authorized by the Act included reduced allocations to the local government fund and the public library fund and the accelerated phase-out of reimbursement payments in connection with the elimination of the tangible personal property tax and electric power generation deregulation and natural gas deregulation, for local governments and school districts. It also provided for cost savings through changes to the State's construction bidding procedures and authorized transfers to the GRF from unclaimed funds, other non-GRF funds, and a tax amnesty program.

Several tax law changes were enacted, including the implementation of the previously postponed final 4.2 percent annual decrease in State personal income tax rates. The Act created 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 be eligible to receive income tax credits.

New funds were created by the Act, including a $130 million Medicaid reserve fund and a $104 million Unemployment Compensation Contingency Fund. The Unemployment Compensation Contingency Fund is used to pay interest on federal advances to the State Unemployment Compensation 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.

The State ended fiscal year 2012 with a GRF cash balance of $973.4 million and a GRF budgetary fund balance of $371 million. In addition to meeting the State's requirement to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2012 GRF revenues, the State deposited $235.1 million into the Budget Stabilization Fund in early fiscal year 2013.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund* had a fund balance of $196.1 million at June 30, 2012, a decrease of $224.4 million, or 53.4 percent, compared to fiscal year 2011. The decrease in fund balance is due to expenditures exceeding revenues by $259.3 million. A 51.9 percent decrease in net Other Financing Sources over the prior fiscal year due to a reduction in bonds and notes issued in fiscal year 2012 over fiscal year 2011 also contributed to the decline in the fund balance.

Federal Government revenue decreased by $777.3 million, or 9.2 percent, over fiscal year 2011. This decrease in revenue is largely due to the phase out of ARRA stimulus funding. An increase of $190.2 million, or 21.3 percent, in License, Permits and Fees income is due in part to the rise in the hospital franchise fees.

Health and Human Services expenditures decreased by $383.3 million and Public Assistance and Medicaid expenditures increased by $153.2 million compared to fiscal year 2011. These variances are the result of the change in responsibility for the payment of Medicaid for aging programs from the Ohio Department of Aging during fiscal year 2011 to the Ohio Department of Job and Family Services during fiscal year 2012. The reduction in ARRA funding also played a role in the decreased expenditures in the fund.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2012, totaled approximately $5.14 billion dollars, a decrease of $74.1 million or 1.4 percent since June 30, 2011. Tobacco settlement revenue was $5.3 million higher than the amount received for fiscal year 2011 due to a timing difference in collections between fiscal years 2011 and 2012. In general, tobacco settlement revenue has been decreasing in recent years due to declining cigarette consumption and tobacco companies depositing money into the disputed account, as described in Note 19D. Investment income decreased $2 million from $2.6 million in fiscal year 2011 to $667 thousand in fiscal year 2012. Debt Service expenditures decreased by $4.6 million during fiscal year 2012 as a result of changing debt service requirements for the bonds. Notwithstanding the increases in revenues and decreases in expenditures during fiscal year 2012, the ending fund balance decreased at June 30, 2012, 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 $2.05 billion increase in net assets was due to a steady stream of premium and assessment income and a decrease in benefits and claims expenses of approximately $406 million or 18.1 percent. 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 2012, the *Lottery Commission Fund* reported $859.2 million in net income before transfers of $771 million and $335 thousand to the Education and General Funds, respectively. The $87.8 million or 58.3 percent increase in the fund's net assets to $238.5 million, as of June 30, 2012, was predominately due to an increase in ticket sales and new collections of video lottery terminal revenues. Ticket sales increased $138 million or 5.3 percent, resulting in record sales of $2.74 billion. Additionally, the Lottery Commission began collecting video lottery terminal and license revenues in fiscal year 2012, receiving $36.1 million. These events account for the $174.1 million or 6.7 percent increase in charges for sales and service revenues from $2.6 billion in fiscal year 2011 to $2.78 billion in fiscal year 2012. Prizes expenses were $1.68 billion as of June 30, 2012, compared to $1.6 billion, as of June 30, 2011, an increase of approximately $77.7 million or 4.9 percent. This increase was in proportion to ticket sales.

The $313.8 million increase in net assets in the *Unemployment Compensation Fund* is due to the declining unemployment rate. The unemployment rate in Ohio dropped from an average of 9.3 percent in fiscal year 2011 to an average of 7.9 percent in fiscal year 2012. The decrease in the unemployment rate caused the State's benefits and claims expense to decrease by $1.34 billion or 32.8 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 2012, the State received $1.43 billion from the federal government compared to $2.52 billion in fiscal year 2011 resulting in a 43.3 percent decrease in federal funding. The premium and assessment income, however, increased by $49.8 million.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2012 and June 30, 2011, the State had invested $25.76 billion and $25.72 billion, respectively, net of accumulated depreciation of $3.28 billion and $3.11 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, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,154,598	$ 11,994	$ 2,166,592	$ 2,082,738	$ 11,994	$ 2,094,732
Buildings	1,686,151	67,505	1,753,656	1,779,018	75,039	1,854,057
Land Improvements	185,119	9	185,128	181,204	10	181,214
Machinery and Equipment	247,555	55,023	302,578	274,472	71,335	345,807
Vehicles	139,444	2,309	141,753	125,927	1,924	127,851
Infrastructure:						
Highway Network:						
General Subsystem	8,588,032	-	8,588,032	8,544,734	-	8,544,734
Priority Subsystem	8,195,288	-	8,195,288	7,895,454	-	7,895,454
Bridge Network	2,964,043	-	2,964,043	2,937,912	-	2,937,912
Parks, Recreation, and Natural Resources System	81,827	-	81,827	83,732	-	83,732
	24,242,057	136,840	24,378,897	23,905,191	160,302	24,065,493
Construction-in-Progress	1,369,486	7,324	1,376,810	1,654,487	-	1,654,487
Total Capital Assets, Net	$ 25,611,543	$ 144,164	$25,755,707	$ 25,559,678	$160,302	$25,719,980

During fiscal year 2012, the State recognized $416.8 million in annual depreciation expense relative to its governmental capital assets as compared with $346.6 million in annual depreciation expense recognized in fiscal year 2011. The State also recognized $32.6 million in annual depreciation expense relative to its business-type capital assets as compared with $32.7 million in annual depreciation expense recognized in fiscal year 2011.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2012 totaling approximately $574.8 million, as compared with $550.5 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 percent (approximately a .2 percent increase for governmental activities and a 10.1 percent decrease for business-type activities). As is further detailed in NOTE 19C of the notes to the financial statements, the State had $83.5 million in major construction commitments (unrelated to infrastructure), as of June 30, 2012, as compared with the $105.8 million balance reported for June 30, 2011.

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 43,026 in lane miles of highway (13,109 in lane miles for the priority highway subsystem and 29,917 in lane miles for the general highway subsystem) and approximately 105.3 million square feet of deck area that comprises 14,182 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 2011, indicates that only 1.3 percent and 3.7 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For calendar year 2010, only 2.2 percent and 3.9 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 2011, indicates that only four 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 2010, 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 fiscal year 2012, total actual maintenance and preservation costs for the priority and general subsystems were $438.5 million and $357.3 million, respectively, compared to estimated costs of $403.8 million for the priority system and $211.2 million for the general system, while total actual maintenance and preservation costs for the bridge network was $511.5 million compared to estimated costs of $509 million. For the previous fiscal year, 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. 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, 2012 and June 30, 2011, the State had total debt of approximately $18.3 billion and $17.52 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2012
With Comparatives as of June 30, 2011
(dollars in thousands)

	As of June 30, 2012			As of June 30, 2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 8,888,085	$ -	$ 8,888,085	$ 7,872,276	$ -	$ 7,872,276
Revenue Bonds and Notes	7,129,786	31,633	7,161,419	7,156,025	47,889	7,203,914
Special Obligation Bonds	2,090,889	-	2,090,889	2,260,853	-	2,260,853
Certificates of Participation	156,664	-	156,664	179,935	-	179,935
Total Debt	$18,265,424	$31,633	$18,297,057	$17,469,089	$47,889	$17,516,978

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds and notes 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 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 2012, the State issued, at par, $2.28 billion in general obligation bonds, $194 million in revenue bonds and notes, and $259.2 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, at par, $1.15 million and $226.5 million, respectively, were refunding bonds. The $194 million in revenue bonds and notes issued were Bond Anticipation Notes (BANS) that are expected to be retired, renewed, or refunded into long term debt. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount, was 4.5 percent (a 4.6 percent increase for governmental activities and a 34 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 Treasurer of State issues 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 and notes are rated as follows:

Revenue Bonds and Notes	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	A+	Aa2	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	B- 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 March 16, 2012, Moody’s 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. This is the first time since February 2007 that Ohio has been at Aa+/Aa1 with a stable outlook from all three rating agencies, including Standard & Poor’s.

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 February 2013, leading economic indicators have weakened but remain consistent with uninterrupted growth at a moderate pace across the country and especially in Ohio. The Ohio unemployment rate increased to seven percent in January 2013 after having held below seven percent for three consecutive months in late calendar year 2012. The rate is down from 7.6 percent in January 2012 and is .9 percentage points below the national unemployment rate for January 2013.

Nationally, real gross domestic product (GDP) was essentially unchanged in the fourth quarter of calendar year 2012 following a 3.1 percent increase in the third quarter. U.S. nonfarm payroll employment increased by 236 thousand jobs during February 2013 and averaged 205 thousand jobs per month during the previous four months. The national unemployment rate decreased to 7.7 percent in February 2013—the lowest level since December 2008.

The 2012-13 Biennial Budget

Major new sources of expenditure savings and tax law changes in the 2012-13 biennial (beginning July 1, 2011) appropriations bill included the following:

- In fiscal year 2013, allocations to local governments will be reduced by $340 million and allocations to public libraries will be reduced by $102.8 million. 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).
- GRF will receive a greater share of commercial activities tax, kilowatt-hour tax, and natural gas consumption tax revenues due to the accelerated phase-out of reimbursement payments for local governments and school districts.
- The estate tax will be eliminated beginning January 1, 2013.

Mid-Biennium Review
In March 2012, the Governor announced a series of policy proposals resulting from a "mid-biennium review" (MBR), with a stated focus on job creation as a priority. In May and June 2012, the General Assembly passed seven pieces of legislation addressing the subjects of energy, tax reform, education, workforce development, and management efficiency for both state and local governments.

General Revenue Fund
For fiscal year 2013, total fiscal year-to-date GRF receipts collected through February 2013 are $727.2 million above estimates and $2.08 billion higher than collections through February of the prior fiscal year. Total fiscal year-to-date GRF disbursements through February 2013 are $177.1 million below estimates and $993.1 million above expenditures through February of the prior fiscal year. As of February 2013, receipts were 3.9 percent ahead of budget estimates and disbursements were .9 percent below budget estimates. Fiscal year 2013 receipts are 12.1 percent ahead of receipts for the first eight months of fiscal year 2012. Disbursements for fiscal year 2013 are 5.5 percent above disbursements for the same time period of fiscal year 2012.

Unemployment Compensation Fund
Due to the declining revenues and 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 received 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 continues to make principal and interest payments on these advances. As of June 30, 2012, $1.88 billion of the repayable advances remains, as detailed in NOTE 14.

Transfer of the State's Spirituous Liquor Distribution and Merchandising Operations
On February 1, 2013, the State transferred its spirituous liquor distribution and merchandising operations for a period of 25 years to JobsOhio Beverage System in exchange for a payment of $1.46 billion. A portion of this payment provided for the payment of all debt service on the outstanding Economic Development and Revitalization revenue bonds and notes. Pursuant to the transaction agreement, the State will forgo deposits to the GRF from the net liquor profits and may not issue additional obligations secured by a pledge of profits from the sale of spirituous liquor during the 25-year term. Litigation related to JobsOhio and the General Assembly's February 2011 law that authorized its creation has been filed and is currently pending. More detailed information on this transfer can be found in NOTE 21 of the financial statements.

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.