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, 2004. 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**
Net assets of the State’s primary government reported in the amount of $18.89 billion, as of June 30, 2004, increased $333.4 million since the previous year. Net assets of the State’s component units reported in the amount of $10.85 billion, as of June 30, 2004, increased $1.22 billion since the end of last fiscal year.

**Fund Financial Statements**
Governmental funds reported combined ending fund balances of $4.23 billion that was comprised of $283.7 million reserved for specific purposes, such as for debt service, state and local government highway construction, and federal programs; $5.58 billion reserved for nonappropriable items, such as encumbrances, noncurrent loans receivable, noncurrent interfund receivables, loan commitments, and inventories; $104.3 million in designations for budget stabilization and compensated absences; and a $1.74 billion deficit.

As of June 30, 2004, the General Fund’s fund balance was approximately $735.8 million, including $20.7 million reserved for “other” specific purposes, as detailed in NOTE 17; $617.4 million reserved for nonappropriable items; and $74.6 million and $23.2 million in designations for budget stabilization and for compensated absences, respectively. The General Fund’s fund balance increased by $543 million (including a $2.5 million increase in inventories) or 281.7 percent during fiscal year 2004. Due to greater-than-expected personal income tax revenue for fiscal year 2004 and executive-ordered and other spending reductions, the General Fund ended the year with an overall positive fund balance. Various transfers-in from other funds, including a $234.7 million transfer from the Tobacco Settlement Fund, and a $193 million federal grant award under the Jobs and Growth Tax Relief Reconciliation Act of 2003 provided additional resources to cover anticipated spending in the General Fund during fiscal year 2004.

Proprietary funds reported net assets of $1.57 billion, as of June 30, 2004, a decrease of $212.8 million since June 30, 2003. Most of the net decline was due to the $477.6 million and $77.3 million net losses reported for the Unemployment Compensation and Lottery Commission enterprise funds, respectively, which offset increases in net assets of $308.4 million and $29.6 million in the Workers’ Compensation and Tuition Trust Authority enterprise funds, respectively. The loss for the Unemployment Compensation Enterprise fund is attributable to benefits and claims expenses of $1.63 billion that exceeded total operating and nonoperating revenues by approximately $457.9 million. For the Lottery Commission Enterprise Fund, the decline is mainly due to a decline in investment income of $161.1 million, which more than offsets an increase in lottery ticket sales of $76.5 million for fiscal year 2004. The Workers’ Compensation Enterprise Fund’s increase is due to net investment income of $1.25 billion, which more than offsets premium dividend reductions and refund expenses of $415.5 million, and workers’ compensation benefits and compensation adjustment expenses of $2.55 billion, which exceeded net premium and assessment income of $2.13 billion by $422.4 million. The Tuition Trust Authority’s increase in net assets resulted from a $270.2 million reduction in tuition benefit expenses in fiscal year 2004 as compared to fiscal year 2003.

**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 $775.4 million or 8.3 percent during fiscal year 2004 to end the fiscal year with a reported balance of $10.1 billion in long-term debt. During the year, the State issued at par $1.22 billion in general obligation bonds, of which $125.2 million were refunding bonds, $221.1 million in revenue bonds, of which $7.4 million were refunding bonds, and $389.9 million in special obligation bonds, of which $122.1 million were refunding bonds. Changes in the primary government’s long-term debt for fiscal year 2004 can be found in NOTE 15.
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, 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 funds.

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 funds statements report on the activities, which the State operates like private-sector businesses. Fiduciary funds 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 also 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 66 through 126 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 128 and 129 of this report.

Figure 2 on the following page summarizes the major features of the State’s financial statements.
### Major Features of the State of Ohio’s Government-wide and Fund Financial Statements

<table>
<thead>
<tr>
<th><strong>Government-wide Statements</strong></th>
<th><strong>Fund Statements</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope</strong></td>
<td><strong>Governmental Funds</strong></td>
</tr>
<tr>
<td>Entire State government (except fiduciary funds) and the State’s component units</td>
<td>The activities of the State that are not proprietary or fiduciary, such as general government, transportation, justice and public protection, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Required Financial Statements</strong></th>
<th><strong>Accounting Basis and Measurement Focus</strong></th>
<th><strong>Type of asset/liability information</strong></th>
<th><strong>Type of inflow/outflow information</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Statement of Net Assets</td>
<td>Accrual accounting and economic resources focus</td>
<td>All assets and liabilities, both financial and capital, and short-term and long-term</td>
<td>All revenues and expenses during the year, regardless of when cash is received or paid</td>
</tr>
<tr>
<td>• Statement of Activities</td>
<td>Modified accrual accounting and current financial resources focus</td>
<td>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</td>
<td>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</td>
</tr>
<tr>
<td>• Balance Sheet</td>
<td>Accrual accounting and economic resources focus</td>
<td>All assets and liabilities, both financial and capital, and short-term and long-term</td>
<td>All revenues and expenses during the year, regardless of when cash is received or paid</td>
</tr>
<tr>
<td>• Statement of Revenues, Expenditures and Changes in Fund Balance</td>
<td>Accrual accounting and economic resources focus</td>
<td>All assets and liabilities, both financial and capital, and short-term and long-term</td>
<td>All revenues and expenses during the year, regardless of when cash is received or paid</td>
</tr>
<tr>
<td>• Statement of Revenues, Expenses and Changes in Fund Net Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Statement of Cash Flows</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Government-wide Financial Statements

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

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

The State’s government-wide financial statements, which can be found on pages 34 through 37 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, community and economic development, and intergovernmental. 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, Arts and Sports Facilities Commission, SchoolNet Commission, Ohio Water Development Authority, Ohio Air Quality Development Authority, and 23 state-assisted colleges and universities as discretely presented component units under a separate column in the government-wide financial statements. The Ohio Building Authority 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 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 14 special revenue funds, 22 debt service funds, and 10 capital projects funds. Under separate columns, information is presented in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Job, Family and Other Human Services, Education, Highway Operating, and Revenue Distribution special revenue funds, all of which are considered major funds. Data from the other 42 governmental funds, which are classified as nonmajor funds, are combined into a single, aggregated presentation under a single column on the 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 38 through 49 of this report while the combining fund statements and schedules can be found on pages 132 through 191.

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 applying the accrual basis of accounting and an economic resources focus. The eight enterprise funds, all of which are considered to be major 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 50 through 57 of this report.
**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 58 through 61 of this report.

**FINANCIAL ANALYSIS OF THE STATE AS A WHOLE**

**Net Assets.** During fiscal year 2004, as shown in the table on the following page, the combined net assets of the State’s primary government increased $333.4 million or 1.80 percent. Net assets reported for governmental activities increased $546.2 million or 3.26 percent and business-type activities decreased $212.8 million or 11.94 percent.

Condensed financial information derived from the Statement of Net Assets for the primary government follows.

<table>
<thead>
<tr>
<th>Primary Government</th>
<th>Statement of Net Assets</th>
<th>As of June 30, 2004</th>
<th>As of June 30, 2003 (as restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current and Other Noncurrent Assets</td>
<td>$12,172,731</td>
<td>$23,832,701</td>
</tr>
<tr>
<td></td>
<td>Capital Assets</td>
<td>$22,946,964</td>
<td>183,801</td>
</tr>
<tr>
<td></td>
<td><strong>Total Assets</strong></td>
<td>$35,119,695</td>
<td>24,016,502</td>
</tr>
<tr>
<td></td>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current and Other Liabilities</td>
<td>7,296,528</td>
<td>3,452,725</td>
</tr>
<tr>
<td></td>
<td>Noncurrent Liabilities</td>
<td>10,499,232</td>
<td>18,994,111</td>
</tr>
<tr>
<td></td>
<td><strong>Total Liabilities</strong></td>
<td>$17,795,760</td>
<td>22,446,836</td>
</tr>
<tr>
<td></td>
<td><strong>Net Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Invested in Capital Assets,</td>
<td>19,868,078</td>
<td>5,873</td>
</tr>
<tr>
<td></td>
<td>Net of Related Debt</td>
<td>19,261,553</td>
<td>19,827</td>
</tr>
<tr>
<td></td>
<td>Restricted</td>
<td>1,888,728</td>
<td>1,787,404</td>
</tr>
<tr>
<td></td>
<td>Unrestricted/(Deficits)</td>
<td>(4,432,671)</td>
<td>(223,611)</td>
</tr>
<tr>
<td></td>
<td><strong>Total Net Assets</strong></td>
<td>$17,323,935</td>
<td>$ 1,569,666</td>
</tr>
</tbody>
</table>

As of June 30, 2004, 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 $19.87 billion. Restricted net assets were approximately $3.68 billion, resulting in a $4.66 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 $4.43 billion deficit for governmental activities. The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the $9.33 billion of outstanding general obligation and special obligation debt at June 30, 2004, $5.71 billion is attributable to debt issued for state assistance to component units (School Facilities Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Assets as restricted net assets. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.
Additionally, as of June 30, 2004, the State’s governmental activities have significant unfunded liabilities for compensated absences in the amount of $382.2 million (see NOTE 14A.) and a $795.7 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 2004 and 2003, follows.

### Primary Government

#### Statement of Activities

For the Fiscal Year Ended June 30, 2004

With Comparatives for the Fiscal Year Ended June 30, 2003 (as restated)

(dollars in thousands)

<table>
<thead>
<tr>
<th>Fiscal Year 2004</th>
<th>Fiscal Year 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Govermental</strong></td>
<td><strong>Business-</strong></td>
</tr>
<tr>
<td><strong>Activities</strong></td>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>Activities</td>
<td></td>
</tr>
</tbody>
</table>

Program Revenues:

- Charges for Services, Fees, Fines and Forfeitures: $2,529,150
- Operating Grants, Contributions & Restricted Investment Income/(Loss): $12,945,972
- Capital Grants, Contributions & Restricted Investment Income/(Loss): $890,444

Total Program Revenues: $16,365,566

General Revenues:

- General Taxes: $19,396,617
- Taxes Restricted for Transportation: $1,631,631
- Tobacco Settlement: $316,799
- Federal: $193,033
- Unrestricted Investment Income: $18,159
- Escheat Property: $74,268
- Tobacco Settlement: $316,799
- Taxes Restricted for Transportation: $1,631,631
- General Taxes: $19,396,617

Net Assets, June 30: $17,323,935

Net Assets, July 1 (as restated): $16,777,747

Change in Net Assets: $546,188

Surplus/(Deficiency) Before

Special Items & Transfers: $234,961
Special Items: $781,149
Transfers-Internal Activities: $546,188
Change in Net Assets: $16,777,747
Net Assets, June 30: $17,323,935

### Expenses:

- Primary, Secondary and Other Education: $9,190,983
- Higher Education Support: $2,495,208
- Public Assistance and Medicaid: $13,573,040
- Higher Education Support: $2,495,208
- Public Assistance and Medicaid: $13,573,040

Total Expenses: $38,232,974

### Total Revenues

- General Revenues: $21,632,447
- Program Revenues: $16,365,566

Total Revenues: $37,998,013

### Surplus/(Deficiency) Before

Special Items & Transfers: $234,961
Special Items: $781,149
Transfers-Internal Activities: $546,188
Change in Net Assets: $16,777,747
Net Assets, June 30: $17,323,935

### Interest on Long-Term Debt (excludes interest charged as program expense)

Program Revenues:

- Charges for Services, Fees, Fines and Forfeitures: $2,529,150
- Operating Grants, Contributions & Restricted Investment Income/(Loss): $12,945,972
- Capital Grants, Contributions & Restricted Investment Income/(Loss): $890,444

Total Program Revenues: $16,365,566

General Revenues:

- General Taxes: $19,396,617
- Taxes Restricted for Transportation: $1,631,631
- Tobacco Settlement: $316,799
- Federal: $193,033
- Unrestricted Investment Income: $18,159
- Escheat Property: $74,268
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- Taxes Restricted for Transportation: $1,631,631
- General Taxes: $19,396,617

Net Assets, June 30: $17,323,935

Net Assets, July 1 (as restated): $16,777,747

Change in Net Assets: $546,188

Surplus/(Deficiency) Before

Special Items & Transfers: $234,961
Special Items: $781,149
Transfers-Internal Activities: $546,188
Change in Net Assets: $16,777,747
Net Assets, June 30: $17,323,935
Governmental Activities

The $546.2 million increase in net assets during fiscal year 2004 primarily resulted from higher-than-expected personal income tax collections for the year, executive-ordered spending reductions in March 2004 totaling $100 million, and an additional $150 million in expected lapses that revised current spending estimates for the year downward. Effective July 2003, the State raised the sales and use tax rate by one cent to six percent. The tax increase, in combination with other general tax revenues, federal reimbursements for eligible program costs, and transfers from the State’s business-type activities, more than adequately offset spending increases over fiscal year 2003 largely in the Primary, Secondary and Other Education and the Public Assistance and Medicaid functions. Increased spending in the State’s largest public assistance-related program, Medicaid, most likely resulted from increases in health care costs and the continuation of a slowdown in the economy.

The following chart illustrates revenue sources of governmental activities as percentages of total revenues reported for the fiscal year ended June 30, 2004.

**Governmental Activities — Sources of Revenue**  
**Fiscal Year 2004**

![Revenue Sources Chart]

**Total FY 04 Revenue for Governmental Activities = $38.0 Billion**

The following chart illustrates expenses by program of governmental activities as percentages of total program expenses reported for the fiscal year ended June 30, 2004.

**Governmental Activities — Expenses by Program**  
**Fiscal Year 2004**

![Expense Chart]

**Total FY 04 Program Expenses for Governmental Activities = $38.2 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, 2004 and 2003. 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, unrestricted investment income, and unrestricted federal revenue.

### Program Expenses and Net Costs of Governmental Activities by Program
**For the Fiscal Year Ended June 30, 2004**
*With Comparatives for the Fiscal Year Ended June 30, 2003 (as restated)*
*(dollars in thousands)*

<table>
<thead>
<tr>
<th>Program</th>
<th>Program Expenses</th>
<th>Net Cost of Program</th>
<th>Net Cost as Percentage of Total Expenses for Program</th>
<th>Net Cost as Percentage of Total Expenses — All Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary, Secondary and Other Education</td>
<td>$9,190,983</td>
<td>$7,738,890</td>
<td>84.2%</td>
<td>20.2%</td>
</tr>
<tr>
<td>Higher Education Support</td>
<td>2,495,208</td>
<td>2,475,475</td>
<td>99.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Public Assistance and Medicaid</td>
<td>13,573,040</td>
<td>3,936,213</td>
<td>29.0</td>
<td>10.3</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>3,247,382</td>
<td>1,265,232</td>
<td>39.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Justice and Public Protection</td>
<td>2,452,891</td>
<td>1,415,166</td>
<td>57.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Environmental Protection and Natural Resources</td>
<td>419,933</td>
<td>167,008</td>
<td>39.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Transportation</td>
<td>1,463,959</td>
<td>509,473</td>
<td>34.8</td>
<td>1.3</td>
</tr>
<tr>
<td>General Government</td>
<td>607,374</td>
<td>191,603</td>
<td>31.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Community and Economic Development</td>
<td>821,841</td>
<td>207,985</td>
<td>25.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>3,770,780</td>
<td>3,770,780</td>
<td>100.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Interest on Long-Term Debt</td>
<td>189,583</td>
<td>189,583</td>
<td>100.0</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total Governmental Activities</strong></td>
<td>$38,232,974</td>
<td>$21,867,408</td>
<td>57.2</td>
<td>57.2%</td>
</tr>
</tbody>
</table>

**Business-Type Activities**
The State’s enterprise funds reported net assets of $1.57 billion, as of June 30, 2004, as compared to $1.78 billion in net assets, as of June 30, 2003. Contributing to the overall decline in business-type activities was the Unemployment Compensation Fund, which reported net assets of $809 million, as of June 30, 2004, as compared to $1.29 billion, a 37.1 percent decrease since June 30, 2003. The Lottery Commission Fund posted a $77.3 million
or 38.5 percent reduction in net assets during fiscal year 2004 when the fund reported net assets of $123.5 million, as of June 30, 2004. The Workers' Compensation Fund, however, reported net assets of $860.8 million, as of June 30, 2004, as compared to $552.4 million in net assets, as of June 30, 2003, a 55.8 percent increase. The chart below compares program expenses and program revenues for business-type activities.

### 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, 2004 and June 30, 2003 (dollars in thousands).

<table>
<thead>
<tr>
<th>Fund</th>
<th>June 30, 2004</th>
<th>June 30, 2003</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Fund</td>
<td>Other Major Funds</td>
<td>Nonmajor Governmental Funds</td>
</tr>
<tr>
<td>Unreserved/Undesignated Fund Balance (Deficit)</td>
<td>$ -</td>
<td>$ (2,184,137)</td>
<td>$ 443,440</td>
</tr>
<tr>
<td>Designated Fund Balance</td>
<td>97,748</td>
<td>-</td>
<td>6,584</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>735,836</td>
<td>690,876</td>
<td>2,805,192</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>24,100,293</td>
<td>10,300,523</td>
<td>3,354,568</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>23,696,836</td>
<td>10,479,377</td>
<td>5,411,537</td>
</tr>
</tbody>
</table>

#### As of and for the Fiscal Year Ended June 30, 2003

(as restated):

<table>
<thead>
<tr>
<th>Fund</th>
<th>June 30, 2003</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreserved/Undesignated Fund Balance (Deficit)</td>
<td>$ (364,851)</td>
<td>$ (1,837,828)</td>
</tr>
<tr>
<td>Designated Fund Balance</td>
<td>-</td>
<td>3,941</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>192,787</td>
<td>762,870</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>21,748,682</td>
<td>9,757,471</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>22,428,880</td>
<td>10,135,171</td>
</tr>
</tbody>
</table>

#### General Fund

Fund balance for the General Fund, the main operating fund of the State, had increased by $543 million during the current fiscal year. Key factors for the increase were higher personal income tax and sales tax collections resulting from an expansion in the economy and a temporary increase (effective through June 30, 2005) in the sales and use tax rate by one cent to six percent, and from increased federal receipts due to a temporary increase in the reimbursement percentage under the federal Medicaid Program. These increases in revenues outpaced mandated spending increases in the Medicaid Program and increased spending for primary and secondary education.
General Fund Budgetary Highlights
The State ended the first year of its biennial budget period on June 30, 2004 with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $934.3 million. Total budgetary sources for the General Fund (including $617.1 million in transfers from other funds) in the amount of $25.76 billion were above final estimates by $308.1 million or 1.2 percent during fiscal year 2004, while total tax receipts were above final estimates by $191.6 million or 1.1 percent. The State also received a $193.0 million federal grant award under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which was deposited into the General Fund, and $234.7 million from tobacco settlement revenues was transferred to the General Fund, as authorized under legislation. It was not necessary to use any of the $180.7 million that had been designated for budget stabilization purposes at June 30, 2003 during fiscal year 2004.

The State also received the enhanced federal medical assistance percentage portion of federal Medicaid reimbursements allowed under the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003. This allows the State to receive reimbursement for an additional 2.95 percent of its eligible Medicaid disbursements paid during the last quarter of fiscal year 2003 and all four quarters of fiscal year 2004. During fiscal year 2004 the State received $368.5 million under this program. Temporary legislation requires that $18.6 million and $90.9 million of this money be spent to pay eligible Medicaid claims during fiscal years 2004 and 2005, respectively. The remainder may be spent at the discretion of the State.

The State undertook several revenue enhancement actions in fiscal year 2003 that took effect in fiscal year 2004, including:

- A one-cent increase in the State sales tax (to six percent) for the biennium. The tax is currently set to expire June 30, 2005.
- Expansion of the sales tax base to include dry-cleaning/laundry services, towing, personal care and other services, and satellite television. (The inclusion of satellite television in the sales tax base is subject to a legal challenge.)
- Moving local telephone companies from the public utility tax base to the corporate franchise and sales tax.
- Elimination of the sales tax exemption for WATS and 800 telecom services coupled with the enactment of a more limited exemption for call centers.
- Adjustments in the corporate franchise tax through the adoption of the Uniform Division of Income for Tax Purposes Act (UDITPA) for apportionment of business income among states, and an increase in the corporate alternative minimum tax.

The better-than-expected revenue picture primarily resulted from higher-than-anticipated receipts from personal income tax which exceeded estimates by $310.2 million and more than offset lower-than-anticipated sales tax receipts, which fell below estimates by $104.4 million.

Total budgetary uses for the General Fund (including $144 million in transfers to other funds) in the amount of $25.77 billion were below final estimates by $226.3 million or .9 percent for fiscal year 2004.

Based on regular monthly monitoring of revenues and expenditures, OBM on March 8, 2004 announced revised General Revenue Fund (GRF) revenue projections for fiscal years 2004 and 2005 based primarily on reduced revenue collections from personal income taxes. The GRF is the largest, non-GAAP, budgetary-basis operating fund included in the State’s General Fund. In response to OBM reducing its GRF revenue projection by $247.1 million (1.02%) for fiscal year 2004 and by $372.7 million (1.48%) for fiscal year 2005, the Governor on March 8 ordered fiscal year 2004 expenditure reductions of approximately $100 million, and the Office of Budget and Management revised the current spending estimates downward to account for an additional $150 million in expected lapses.

Other Major Governmental Funds
Fund balance for the Job, Family and Other Human Services Fund, as of June 30, 2004, was a deficit in the amount of $76.5 million, a decrease of $94.5 million since June 30, 2003. Expenditures exceeded revenues by $109.6 million, and of this deficiency of revenues under expenditures, $15.2 million was offset by net transfers-in received from other funds.
Fund balance for the *Education Fund*, as of June 30, 2004, totaled $48.3 million, an increase of $25.8 million since June 30, 2003. Fiscal year 2004 net transfers-in for the fund in the amount of $635.5 million was more than enough to cover the excess of expenditures over revenues reported for the fund in the amount of $609.8 million.

Fund balance for the *Highway Operating Fund*, as of June 30, 2004, totaled $600.2 million, a decrease of $15.5 million (including a $946 thousand decrease in inventories) since June 30, 2003. The decline was in spite of decreased transportation spending of $1.78 billion for fiscal year 2004 compared with $1.91 billion during the previous fiscal year, and an increase in the fund’s revenues to $1.52 billion in fiscal year 2004 from $1.44 billion in fiscal year 2003. The revenue increase for this fund was due in part to a two-cent increase in the motor vehicle fuel tax rate from 22 cents a gallon to 24 cents a gallon, effective July 1, 2003. There was a slight increase in transfers-out for fiscal year 2004 of $9.1 million when compared to fiscal year 2003 results.

Fund balance for the *Revenue Distribution Fund*, as of June 30, 2004, totaled $118.8 million, an increase of $12.2 million since June 30, 2003. Fiscal year 2004 net transfers-out to other governmental funds of $790 million were lower than the $825.9 million net transfers-out reported for fiscal year 2003, thus causing the increase in fund balance.

**Proprietary Funds**

The State’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

For the *Workers’ Compensation Fund*, the $308.4 million increase in net assets was primarily due to an increase in investment income of approximately $674.5 million. The Bureau of Worker’s Compensation experienced net investment income of $1.25 billion, compared to net investment income of $575.4 million reported in the previous fiscal year. The increase in net investment income was primarily attributable to an increase of $804 million in the fair value of the investment portfolio in fiscal year 2004 compared to a $43 million increase in fair value during fiscal year 2003.

Workers’ compensation benefits and claims expenses exceeded premium and assessment income by $422.4 million in fiscal year 2004 as compared with $1.19 billion in fiscal year 2003.

Net assets were reduced by premium dividend reductions and refunds expenses of $415.5 million during fiscal year 2004 as compared to a $640.6 million reduction in fiscal year 2003. The Workers Compensation Oversight Commission approved a one-time 20-percent premium reduction for Ohio private employers for the policy period, July 1, 2003 through December 31, 2003, and an additional 20-percent premium reduction was approved for the policy period January 1, 2004 through June 30, 2004.

Workers’ compensation benefits and claims expense were $2.55 billion in fiscal year 2004 as compared to $3.36 billion in fiscal year 2003. The decrease in workers’ compensation benefits is due largely to declines in the number of newly awarded permanent total disability claims. Medical costs in fiscal year 2004 were lower than expected by nearly $80 million.

For fiscal year 2004, the *Lottery Commission Fund* reported $578.9 million in income before transfers of $655.6 million and $623 thousand to the Education and General funds, respectively, posting a $77.3 million dollar reduction in the fund’s net assets. For fiscal year 2003, the Lottery Commission Fund reported approximately $708.2 million in income before transfers of $641.4 million and $189 thousand to the Education and General funds, respectively, posting a $66.6 million gain in the fund’s net assets.

Unemployment benefits and claims expenses of $1.63 billion exceeded total operating and nonoperating revenues by approximately $457.9 million for the *Unemployment Compensation Fund*. As a result of the decline in the asset balance on deposit with the federal government relative to employer contributions during fiscal year 2004, investment income for the fund was $53.3 million, down $40.3 million or 43.1 percent from fiscal year 2003. As of June 30, 2004, the deposit with federal government was reported at $711.0 million, as compared with $1.19 billion, as of June 30, 2003, a 40.3 percent decline. Premium and assessment income reported for fiscal year 2004 in the amount of $847.6 million increased by $96.6 million, while federal government revenue in the amount of $224.4 million decreased by $116.2 million when compared to fiscal year 2003. For calendar year 2003, Ohio’s annualized average monthly unemployment rate 6.1 percent versus 5.7 percent during the previous calendar year, according to the Ohio Department of Job and Family Services.

For fiscal year 2004, the *Tuition Trust Authority* Fund reduced its deficit by $29.6 million or 9.3 percent. The deficit reduction was primarily due to an increase in investment income of $79.9 million and a decrease in benefits and claims expenses of $270.2 million. The investment income for the Authority was $109 million in fiscal year
2004 as compared to $29.1 million in fiscal year 2003. The increase in investment income was primarily attributable to improving market values of securities held by the Authority. Tuition benefit expense was $111.0 million in fiscal year 2004, as compared to $381.2 million in fiscal year 2003. The decrease in the tuition benefits expense was a result of more modest growth during fiscal year 2004 and the slower estimated increase in the projected future tuition growth due to the suspension of sales in the Guaranteed Savings Program. While the increase in investment income and the reduction in the benefits claims expenses contributed to the reduction in the Authority’s deficit for fiscal year 2004, tuition unit sales decreased by $71.2 million or 64.4 percent. The reduction in unit sales is attributable to the suspension of sales in the Guaranteed Savings Program.

The Liquor Control Fund reported a net gain of $1.1 million after transferring $118 million to the General Fund and $26.6 million to other governmental funds.

In fiscal year 2004, transfers from proprietary funds to governmental funds totaled $830.3 million, up $3.8 million or .5 percent when compared to the $826.5 million in transfers-out reported in fiscal year 2003.

Capital Asset and Debt Administration

Capital Assets
As of June 30, 2004 and June 30, 2003, the State had invested $23.13 billion and $22.58 billion, net of accumulated depreciation of $1.99 billion and $1.86 billion, respectively, in a broad range of capital assets, as detailed in the table below.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governmental Activities</td>
<td>Business-Type Activities</td>
</tr>
<tr>
<td>Land</td>
<td>$ 1,573,861</td>
<td>$ 12,631</td>
</tr>
<tr>
<td>Buildings</td>
<td>2,016,005</td>
<td>133,763</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>143,262</td>
<td>17</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>141,704</td>
<td>34,928</td>
</tr>
<tr>
<td>Vehicles</td>
<td>125,976</td>
<td>2,462</td>
</tr>
<tr>
<td>Infrastructure:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway Network:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Subsystem</td>
<td>8,232,748</td>
<td>—</td>
</tr>
<tr>
<td>Priority Subsystem</td>
<td>6,707,733</td>
<td>—</td>
</tr>
<tr>
<td>Bridge Network</td>
<td>2,287,175</td>
<td>—</td>
</tr>
<tr>
<td>Parks, Recreation, and Natural Resources System</td>
<td>23,424</td>
<td>—</td>
</tr>
<tr>
<td>Construction-in-Progress</td>
<td>1,695,076</td>
<td>—</td>
</tr>
<tr>
<td>Total Capital Assets, Net</td>
<td>$22,946,964</td>
<td>$183,801</td>
</tr>
</tbody>
</table>

During fiscal year 2004, the State recognized $179.5 million in annual depreciation expense relative to its general governmental capital assets as compared with $156.2 million in depreciation expense recognized in fiscal year 2003.

Additionally, the State completed construction on a variety of projects at various state facilities during fiscal year 2004 totaling approximately $615.6 million, as compared with $435 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 2.44 percent (a 2.6 percent increase for governmental activities and a 13.3 percent decrease for business-type activities). As further detailed in NOTE 19D. of the notes to the financial statements, the State had $226.2 million in major construction commitments (unrelated to infrastructure), as of June 30, 2004, as compared with the $205.6 million balance reported for June 30, 2003.

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 pos-
sessed 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 42,471 in lane miles of highway (12,225 in lane miles for the priority highway subsystem and 30,246 in lane miles for the general highway subsystem) and approximately 82.3 million square feet of deck area that comprises more than 12,000 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 2003, indicates that only 3.9 percent and 1.1 percent of the priority and general subsystems, respectively, were assigned a “poor” condition rating. For calendar year 2002, only 3.1 percent and 1.8 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 2003, indicates that only 2.7 percent and .02 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively. For calendar year 2002, only 3.0 percent and .01 percent of the number of square feet of bridge deck area were considered to be in “fair” and “poor” conditions, respectively.

For fiscal year 2004, total actual maintenance and preservation costs for the priority and general subsystems were $273.3 million and $227.4 million, respectively, compared to estimated costs of $195.3 million for the priority system and $133.2 million for the general system, while total actual maintenance and preservation costs for the bridge network was $208.4 million compared to estimated costs of $147.8 million. For the previous fiscal year, total actual maintenance and preservation costs for the priority and general subsystems were $273.8 million and $209.5 million, respectively, compared to estimated costs of $243.7 million for the priority system and $135.1 million for the general system, while total actual maintenance and preservation costs for the bridge network was $229.1 million compared to estimated costs of $180.4 million.

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

**Debt — Bonds and Notes Payable and Certificates of Participation Obligations**

As of June 30, 2004 and June 30, 2003, the State had total debt of approximately $10.10 billion and $9.32 billion, respectively, as shown in the table below.

<table>
<thead>
<tr>
<th>Bonds and Notes Payable and Certificates of Participation</th>
<th>As of June 30, 2004</th>
<th>As of June 30, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Govermental Activities</strong></td>
<td><strong>Business-Type Activities</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Bonds and Notes Payable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Obligation Bonds</td>
<td>$5,420,711</td>
<td>$</td>
</tr>
<tr>
<td>Revenue Bonds and Notes</td>
<td>607,958</td>
<td>158,537</td>
</tr>
<tr>
<td>Special Obligation Bonds</td>
<td>3,904,480</td>
<td>—</td>
</tr>
<tr>
<td>Certificates of Participation</td>
<td>6,480</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td><strong>$9,939,629</strong></td>
<td><strong>$158,537</strong></td>
</tr>
</tbody>
</table>

The State’s general obligation bonds are backed by its full faith and credit. Revenue bonds issued by the State, including the Ohio Building Authority (OBA), a blended component unit of 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 OBA 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 2004, the State issued at par $1.22 billion in general obligation bonds, $221.1 million in revenue bonds, and $389.9 million in special obligation bonds. Of the general obligation bonds, revenue bonds, and special obligation bonds issued at par, $125.2 million, $7.4 million, and $122.1 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 8.3 percent (an 8.6 percent increase for governmental activities and a 5.2 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 AA+, except for Highway Capital Improvement Obligations, which are rated AAA.

For state obligations, which the Ohio Building Authority and the Treasurer of State issue and General Revenue Fund appropriations secure, Moody’s rating is Aa2 while S&P and Fitch rate these bonds AA.

On November 8, 2004, Moody’s changed its credit outlook on the State from “negative” to “stable.” On July 9, 2003, S&P changed its credit outlook on the State from “negative” to “stable.” The changes in outlook to “stable” do not constitute a rating change, but reflect an assessment by that particular rating agency that a change in the rating is not expected in the near term.

Limitations on Debt
A 1999 amendment to the Ohio Constitution provides an annual debt service “cap” on general obligation bonds and other direct obligations payable from the General Revenue Fund (GRF) or net state lottery proceeds. Generally, such bonds may not be issued if the future fiscal year debt service on the new bonds and previously issued bonds exceeds five percent of total estimated GRF revenues plus net state lottery proceeds during the fiscal year of issuance. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the General Assembly and may be changed by future constitutional amendments. Direct obligations of the State include, for example, special obligation bonds issued by the Ohio Building Authority and the Treasurer of State that are paid from GRF appropriations, but exclude bonds such as highway bonds that are paid from highway user receipts.

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
As of the end of October, the national economy has pulled out of the mid-year soft patch, and is moving ahead on the back of a strong showing by consumer spending and a large increase in business equipment spending. Analysts expect the same or faster growth in the current quarter.

The forecast for the State of Ohio’s economy is for a continuing, moderate economic recovery with moderate improvements in Ohio’s labor markets. Growth in wages and salaries, which are a key determinant of revenue from income taxes and has an important effect on revenue from the sales and use tax, grew at an annualized rate of 6.4 percent for the first quarter of 2004. Through the end of October, actual tax revenues and disbursements for the GRF for fiscal year 2005 have been consistent with the Office of Budget and Management’s projections.

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the General Revenue Fund (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 GRF appropriations bill for the fiscal year 2004-05 biennium (beginning July 1, 2003) was passed by the General Assembly on June 19, 2003 and promptly signed (with selective vetoes) by the Governor June 26. Necessary GRF debt service and lease-rental appropriations (for special obligation debt) for the entire biennium were requested in the Governor’s proposed budget, incorporated in the related appropriations bill as introduced and in the bill’s versions as passed by the House and the Senate, and in the Act as passed and signed. (The same is true for the separate Department of Transportation (DOT) and Bureau of Workers’ Compensation (BWC) appropriations acts containing lease-rental appropriations for certain Ohio Building Authority-financed projects at DOT, BWC, and the Department of Public Safety.)
The Act provides for total GRF biennial expenditures of approximately $48.8 billion. Those authorized GRF expenditures for fiscal year 2005 are approximately 3.5 percent higher than for fiscal year 2004. The following are examples of increases in authorized GRF biennial expenditures compared with actual fiscal year 2002-03 expenditures in major program categories: primary and secondary education-5.1 percent; higher education-4.4 percent; mental health and mental retardation-4.1 percent; Medicaid-19.9 percent; and adult and juvenile corrections-5.7 percent.

The above expenditure levels reflect among other expenditure controls in the Act: Medicaid cost containment measures including pharmacy cost management initiatives, limited expenditure growth for institutional services and implementation of managed care for higher-cost populations; continued phase-out of certain tangible personal property tax relief payments to local governments; the closing by consolidation of three institutional facilities during the biennium; adjustments in eligibility guidelines for subsidized child care from 185 percent to 150 percent of the federal poverty level, and freezing certain reimbursement rates; no compensation increases for most state employees in fiscal year 2004 and limited one-time increases in fiscal year 2005; and continued limitation on local government assistance fund distributions to most subdivisions and local libraries to the lesser of the equivalent monthly payments in fiscal years 2000 and 2001 or the amount that would have been distributed under the standard formula.

On July 1, 2004, the Governor ordered fiscal year 2005 expenditure cuts of approximately $118 million in addition to a reduction of $50 million in state spending on Medicaid reflecting an increased federal share of certain Medicaid services. Those annualized reductions are one percent for corrections, youth services, mental health, and mental retardation and developmental disabilities; and four percent in fiscal year 2004 and six percent in fiscal year 2005 for other departments and agencies. Expressly excluded from those reductions are debt service and lease rental payments relating to state obligations, state basic aid to elementary and secondary education, instructional subsidies and scholarships for public higher education, in-home care for seniors, and certain job creation programs. The balance of those revenue reductions have been and will be offset by GRF expenditure lapses and, for fiscal year 2005, elimination of an anticipated $100 million year-end set-aside for budget stabilization purposes, while maintaining a year-end GRF fund balance at June 30, 2005 equal to one-half percent of total revenues and transfers-in reported for this budgetary fund during fiscal year 2004.

Contacting the Ohio Office of Budget and Management
This financial report is designed to provide the State’s citizens, taxpayers, customers, and 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.