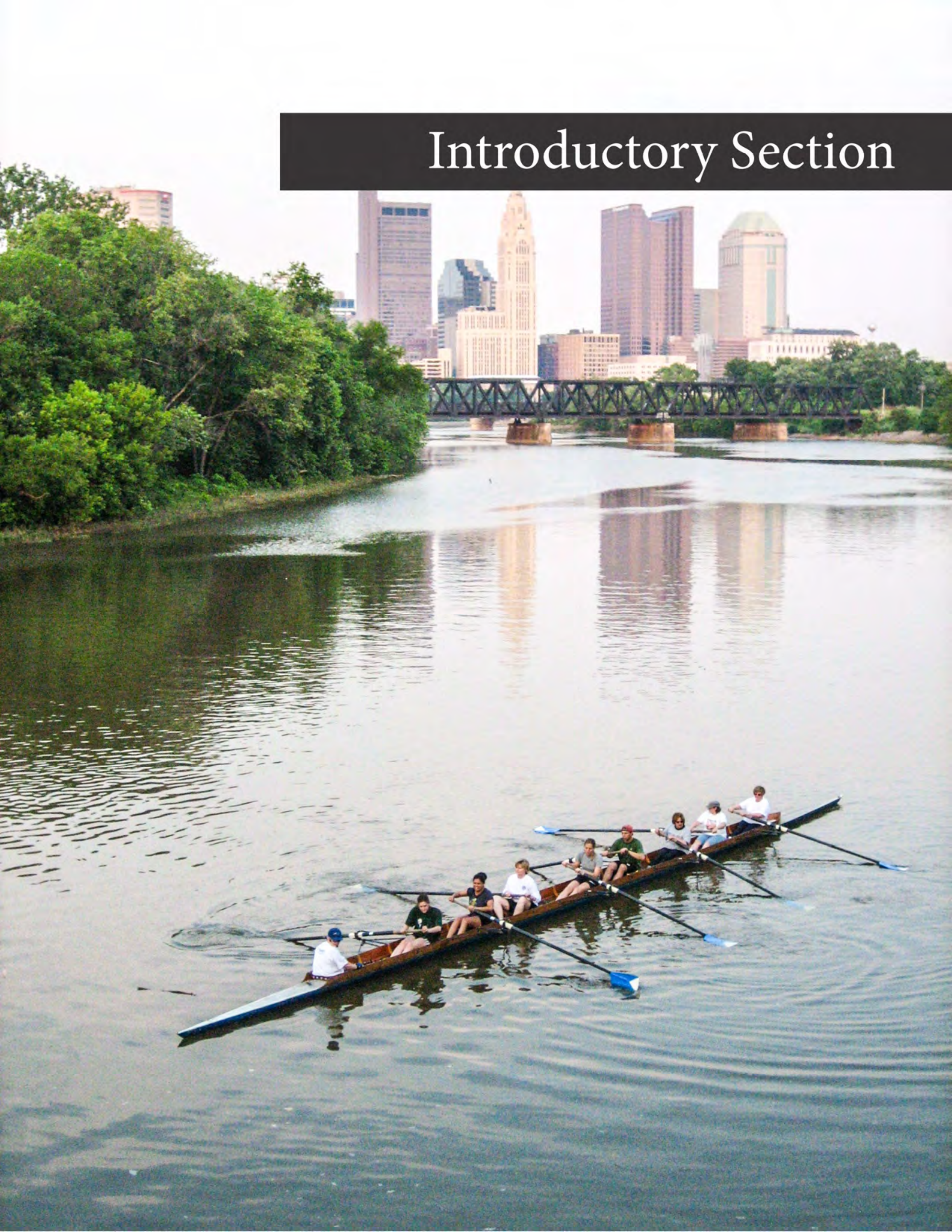
Introductory Section



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Office of Budget and Management

John R. Kasich
Governor

Timothy S. Keen
Director

December 22, 2014

To the Honorable John R. Kasich, Governor;
Members of the Ohio General Assembly; and
Citizens of Ohio:

It is my privilege to present the State of Ohio's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014, prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Office of Budget and Management (OBM) prepared this report pursuant to Section 126.21, Ohio Revised Code. The report includes the basic financial statements, which provide an overview of the State's financial position and the results of financial operations. Responsibility for the accuracy of the data presented, as well as the completeness and fairness of the presentation, including all disclosures, rests with OBM.

To the best of our knowledge and belief, the information presented is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the State of Ohio. All disclosures necessary for a reasonable understanding of the State's financial activities have been included.

This letter of transmittal is intended to complement management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements.

The reporting format for our CAFR is significantly different from the way the State more typically presents its finances on a non-GAAP budgetary basis. The most obvious difference is that the "General Fund" in the CAFR includes more than just the State's General Revenue Fund (GRF). The General Fund also includes other funds such as the reimbursement-supported funds used for activities administered by state agencies and departments for which special revenue or proprietary fund classifications were considered to be inappropriate.

The State's management is responsible for establishing and maintaining internal control designed to ensure that the State's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

INDEPENDENT AUDIT RESULTS

In compliance with Ohio Revised Code, an annual financial audit has been performed by the Office of the Auditor of State. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's unmodified opinion is included in the Financial Section of this report. This opinion indicates there was no limitation on the scope of the auditors' examination and the financial statements were presented fairly, in all material respects, in accordance with GAAP.

Additionally, the State's Single Audit report is audited by the Office of the Auditor of State to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The Single Audit report will be issued separately from the State's CAFR.

PROFILE OF THE GOVERNMENT

History

Ohio's first constitution was adopted in 1802, and Ohio entered the union in 1803. Ohio's present constitution was modified by a state constitutional convention in 1851 and has since been amended on numerous occasions. The Constitution establishes a state governmental structure similar to the federal model, with three separate branches of government — executive, legislative, and judicial.

Governmental Structure

The executive branch consists of the Governor and Lieutenant Governor, who are jointly elected, and four additional statewide elected officials: the Attorney General, the Auditor of State, the Secretary of State, and the Treasurer of State. All of these officials are elected to four-year terms. The State Board of Education is also part of the executive branch. Approximately 100 departments, agencies, boards, and commissions are part of the executive branch of government and receive appropriations from the legislature, along with several judicial and legislative agencies. An organizational chart of state government can be found on pages xii and xiii.

The state legislature in Ohio is referred to as the General Assembly and consists of two separate chambers, the Senate, a 33-member body, and the House of Representatives, a 99-member body. Each member of the General Assembly is elected to represent the residents of a geographical district for a specified term. Members of Ohio's General Assembly are subject to term-limits; senators are restricted to serving two four-year terms, and representatives are restricted to serving four two-year terms. Each chamber has a presiding officer to call the chamber to order and direct the calendar of events. The presiding officer in the Senate is the President of the Senate, and the presiding officer of the House of Representatives is the Speaker of the House. A new General Assembly is convened in January of each odd-numbered year.

Within the Judicial system, the Supreme Court is the court of last resort in Ohio. Most of its cases are appeals from the twelve district courts of appeal. The chief justice and six justices are elected to six-year terms on a nonpartisan ballot.

Reporting Entity and Its Services

For financial reporting purposes, the State's reporting entity consists of (1) the primary government, (2) component units for which the primary government is financially accountable, and (3) other component units for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria set forth in Governmental Accounting Standards Board's (GASB) Statement 14, The Financial Reporting Entity, Statement 39, Determining Whether Certain Organizations are Component Units, an amendment to GASB 14 and Statement 61, The Financial Reporting Entity: Omnibus, an amendment to GASB 14, are used to determine the organizations for which the State is financially accountable. NOTE 1A. to the financial statements explains more fully which financial activities are included in the State's reporting entity.

The State provides a wide range of services and support to its citizenry that are accounted for in the following functions or programs: 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, workers' compensation, lottery, unemployment compensation, tuition credits, and other business-type activities.

Retirement Systems

Employees of the primary government or its component units may be eligible to participate in the Ohio Public Employees Retirement System, the State Teachers Retirement System of Ohio, the State Highway

Patrol Retirement System, or the Alternative Retirement Plan. Further information on the State's participation in the different retirement systems can be found in NOTE 9 to the financial statements.

Risk Management

As discussed in NOTE 1P. to the financial statements, the State's primary government is self-insured for claims under its traditional healthcare plan as well as its vehicle liability plan. Employee and public official fidelity bonding is placed with a private insurer. Tort liability is self-funded; however, several state agencies have also acquired private insurance. State-owned buildings are covered under a catastrophic property policy for both real and personal property losses. All other liability risk to state property is self-funded on a pay-as-you-go basis. The state's primary government and its component units participate in a public entity risk pool, which is accounted for in the Workers' Compensation Enterprise Fund, for the financing of their workers' compensation liability.

Budgetary Control and Accounting System

Ohio's Constitution requires the State to have a balanced budget. The State's biennial budget begins on July 1 of odd-numbered years and ends 24 months later on June 30. The State maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the General Assembly. Budgets are entered on the statewide accounting system once the appropriations bill becomes law. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits.

The State's non-GAAP budgetary financial statements are prepared on a modified cash basis of accounting. This means that revenues are recognized when cash is received and expenditures are recognized when cash is paid. Encumbrances, reservations of appropriation authority as of June 30, the end of the State fiscal year, are reflected as expenditures on the budgetary basis of accounting.

Budget-to-actual comparisons can be found in this report for each governmental fund for which an appropriated annual budget has been adopted. For the General Fund and the Job, Family and Other Human Services Special Revenue Fund, these comparisons are presented as part of the basic financial statements. For other budgeted non-major governmental funds with appropriated annual budgets, budget-to-actual comparisons are in the non-major governmental funds section of the CAFR.

Additional discussion of the budgetary and GAAP bases of accounting is provided in NOTE 1 to the financial statements.

The accounting system maintains all non-GAAP budgetary basis transactions and most GAAP basis adjustments. In addition to the information obtained from the accounting system for financial reporting, selected financial information provided by the State's agencies and departments is compiled to complete the GAAP basis financial statements.

Differences between the two bases of accounting (GAAP vs. non-GAAP budgetary) include: 1) entity differences — the GAAP reporting entity may include organizations such as financing authorities and other component units that are not included in the State's budget; 2) basis differences — the GAAP basis results in the reporting of accruals while the non-GAAP budgetary basis results in the reporting of cash transactions; and 3) timing differences — for example, GAAP recognizes expenditures for payables for goods and services received, whereas the non-GAAP budgetary basis considers unliquidated encumbrances as expenditures. A reconciliation between the GAAP basis and non-GAAP budgetary basis fund balances is presented in NOTE 3 to the financial statements.

ECONOMIC OVERVIEW AND OUTLOOK

The Economy in 2014

The U.S. economy expanded for the fifth consecutive calendar year in 2014, extending to five and one-half years the expansion that began in mid-2009. At 66 months in length as of December, the current expansion is the fifth longest of the eleven expansions since the end of World War II. By a number of important measures, however, this expansion is the weakest of the five expansions that have lasted at least as long.

Real GDP increased at an annual rate of 2.3 percent during the 21 quarters ending in the third quarter of 2014, compared with an average growth rate of 4.3 percent during the first 21 quarters of the four other expansions that lasted as long. Real final sales increased at a 1.9 percent annual rate during the period, compared with the average of 4.0 percent during the four previous expansions. Nonfarm payroll employment has increased at an annual rate of 1.1 percent – up from 0.9 percent during the previous expansion, but less than one-half of the average of 2.3 percent. Real disposable personal income has increased at an annual rate of only 1.6 percent, compared with an average of 3.9 percent in the prior expansions.

Researchers believe that both structural and cyclical factors are behind slower growth during the current episode. A primary structural factor is the aging of the U.S. population. Potential cyclical factors include new taxes and regulations that might be affecting decisions about saving and consuming and regarding the choice between work and leisure that have resulted in slower overall economic growth. The difficulty in disentangling structural and cyclical factors has complicated efforts to prescribe corrective economic policies.

During 2014, real GDP has been volatile, falling at an annual rate of 2.1 percent in the first quarter and then rising 4.6 percent in the second quarter and 3.9 percent in the third quarter. Major monthly indicators point to continued growth in the fourth quarter at a somewhat slower pace. Personal consumption expenditures contributed 1.3 percentage points of the growth in real GDP from the fourth quarter of 2013 through the third quarter of 2014. Growth in personal consumption expenditures was concentrated in durable goods, largely reflecting a 7.0 percent increase in light motor vehicle sales from the fourth quarter of 2013 to the third quarter of 2014.

Inflation remained tame in 2014. The Consumer price index increased at an annual rate of 2.0 percent from the fourth quarter of 2013 to the third quarter of 2014. The increase is at the high end of the range of fourth-quarter to fourth-quarter increases of 1.2 percent to 1.9 percent during the previous five years. The last time that inflation was consistently this low for this length of time was in the 1960s. The recent large decrease in the price of oil is likely to extend this period of very low inflation at least well into 2015.

Monetary policy was extraordinarily accommodative throughout 2014. The Federal Reserve continued to peg short-term interest rates near zero and made substantial purchases of Treasury and Mortgage-Backed Securities each month through October. The bond-buying program, known as Quantitative Easing, was an effort to promote confidence in the economy and financial markets and encourage investing, hiring, and spending.

In light of recent improvements in labor markets, Quantitative Easing was deemed no longer necessary. Employment growth picked up to the fastest pace of this expansion in 2014, averaging 241,000 per month through November, and the unemployment rate fell to 5.8 percent. The decline in the unemployment rate in part resulted from an unexpectedly large decrease in the labor force participation rate. In short, many more people than predicted under the circumstances, who would otherwise have been counted as unemployed, instead left the labor force.

A much broader measure than the unemployment rate – the Labor Market Conditions Index (LMCI) from the Federal Reserve Board – indicates that improvements in labor markets during the current expansion have been typical. The difference in the current case is that typical improvements have followed an atypically severe downturn, leaving greater slack in labor markets than would be usual at this point in an expansion. The Federal Reserve is monitoring all 19 components of the LMCI, which include the labor force participation rate, the number of people working part-time for economic reasons, average weekly hours, and average hourly earnings.

Fiscal policy continued to add directly to aggregate demand in fiscal year 2014, as federal outlays amounted to an estimated 21.1 percent of GDP, compared with receipts amounting to an estimated 17.3 percent of GDP. The budget deficit as a percent of GDP declined for the fifth straight year, reaching an estimated 3.7 percent of GDP, but remained among the largest in history during peace time. The mix of the outlays and the high level of uncertainty about pending tax rate increases, the implementation of the Affordable Care Act, and the volume of other regulations might offset to some degree any positive effects of deficit spending on aggregate demand.

The Ohio Economy

In line with trends across the country, labor markets across Ohio strengthened further in 2014. Nonfarm payroll employment in Ohio increased by 38,400 jobs, or 0.9 percent annualized, from December 2013 to October 2014. In addition, the annual benchmark revisions to 2013 data released by the U.S. Bureau of Labor Statistics in early 2014 revealed much stronger growth in employment during 2013 than had been previously reported. The increase in Ohio employment from December 2012 to December 2013 was revised up from 25,600 jobs, or 0.5 percent, to 68,300 jobs, or 1.3 percent – more than doubling reported job growth in Ohio during 2013. The revisions primarily reflected adjustments to estimates of jobs created or lost due to new business formation or business closures and other methodological improvements.

The Ohio unemployment rate decreased 1.8 percentage points from 7.1 percent in December 2013 to 5.3 percent in October 2014 – down by one half from the peak of 10.6 percent reached in February 2010. The decrease during 2014 reflected an increase of 84,949, or 1.6 percent, in total employment, a decrease of 105,456, or 25.7 percent, in unemployed people, and a decrease of 20,507, or 0.4 percent, in the labor force. As is the case across the country, at least a portion of the decrease in the labor force is attributable to demographic changes that affect decisions to retire or pursue higher education.

In response to the strengthening in labor markets, Ohio personal income continued to grow in the first half of 2014, outpacing growth across the country. Ohio personal income increased at an annual rate of 5.7 percent from the fourth quarter of 2013 to the second quarter of 2014, compared with an increase of 4.9 percent across the country. Wage and salary disbursements increased at an annual rate of 6.9 percent, compared with 5.1 percent across the country. In fact, income growth in Ohio has kept pace with income growth across the country since the end of the recession in the second quarter of 2009. Ohio personal income has expanded at an annual rate of 3.7 percent, compared with 3.9 percent across the country. Wage and salary disbursements increased at an annual rate of 3.4 percent, matching the rate of increase across the country.

The five and a half year long economic expansion has produced rising state tax revenue in Ohio. The increase in total revenues exceeded the estimate for the fourth year in a row in fiscal year 2014. Sales tax revenue essentially matched the estimate, after adjusting for a one-time refund of $32 million. Auto sales tax was somewhat higher than estimated and non-auto sales tax was slightly lower than expected. Income tax revenues were well above the estimate in fiscal year 2014, reflecting stronger-than-anticipated growth in employment and earnings. The positive performance in absolute terms and relative to estimates has continued into fiscal year 2015.

The Economic Outlook

The economy is likely to continue expanding in 2015. Past expansions have been cut short by unexpected events that have often included some mix of rising inflation, tightening monetary policy, and an upward spike in energy costs – none of which has recently occurred or appears likely in the near-term. Leading economic indicators that in the past have provided some warning of oncoming recessions are almost uniformly signaling growth.

The pace of overall economic growth is projected to increase in 2015. Real GDP will accelerate from a projected 2.2 percent in 2014 to 2.7 percent in 2015, according to the December 2014 forecast by IHS Global Insight. The Ohio economy is also expected to grow in 2015, according to the November 2014 IHS Global Insight forecast. Employment is projected to accelerate from 0.8 percent in 2014 to 1.2 percent in 2015 on an average annual basis. Personal income is projected to increase 3.8 percent in 2015, compared with a 4.0 percent increase in 2014. Nominal Gross State Product is projected to accelerate from 2.5 percent in 2014 to 3.8 percent in 2015.

As always, unexpected events will shape future economic performance. In the near-term, U.S. economic growth could be stronger than previously anticipated for a time before ultimately giving way to more moderate growth longer-term. The economy could benefit more than anticipated in the near-term from the following:

- Extraordinarily accommodative monetary policy, even though the bond-buying program has ended and the Fed might begin to slowly raise short-term interest rates sometime in 2015;
- Strong growth in corporate profits and strong corporate balance sheets;
- Further improvements in consumer confidence and household balance sheets; and

- The substantial decrease in the price of oil, which on balance will enhance productivity and boost spending on non-energy goods and services.

However, risks to the economic outlook include:

- An abrupt reversal of the extraordinarily monetary policy that has been associated with historically low interest rates;
- The inability of federal lawmakers to enact a budget and foster policies consistent with long-term economic growth;
- An economic slowdown overseas; and
- Large direct and indirect costs related to recent and pending regulations in health care, energy, and financial services.

MAJOR INITIATIVES AND PROJECTS

The "Jobs Budget 2.0" – Fiscal Years 2014 and 2015

Consistent with state law, the Governor's biennial Executive Budget for fiscal years 2014 and 2015 was released in February 2013 and introduced in the General Assembly as H.B. 59. After extended hearings and review, the 2014-15 biennial appropriations budget was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2013.

Among major policy initiatives undertaken by the Kasich Administration in conjunction with the biennial operating budget for fiscal years 2014 and 2015:

- Maintaining Fiscal Stability and Restraining Spending***:*** Following the closure of an historic $7.7 billion budget gap that had been projected for fiscal years 2012-2013, H.B. 59 continued the practice of conservative fiscal management by maintaining the spending reforms enacted in H.B. 153 while continuing the contain costs in the State's most expensive budget program, Medicaid. As a result of these policies, in conjunction with the reforms enacted in H.B. 153, the State converted a situation in which it had only 89 cents was in the Budget Stabilization Fund while facing an estimated $7.7 billion gap into a surplus at the end of fiscal year 2013 that resulted in a deposit to the Budget Stabilization Fund of $995.9 million early in fiscal year 2014. With that deposit, the balance of the Budget Stabilization Fund was increased to $1.48 billion, an amount equal to its statutory target amount of five percent of the previous year's GRF revenue. As a result, Ohio now had the flexibility to undertake additional reforms in taxation, education and workforce development, and health care to make it more competitive and support economic growth. .

- Reforming Ohio's System of Taxation**:** The conservative fiscal management in place since 2011 has not only allowed the State to address its fiscal challenges, but also to undertake reforms to its system of taxation in order to make Ohio more economically competitive. In 2014, these reforms included a nine percent across the board income tax reduction that was part of an overall reduction of ten percent. Additionally, to encourage economic growth and job creation, H.B. 59 also included a small business tax deduction that allows owners of most small businesses to deduct 50 percent of the first $250,000 in business income. Without the conservative policies adopted in H.B. 153 and continued in H.B. 59, these tax reductions would not have been possible.

- Transforming State Healthcare Programs to Achieve Cost Savings and Improve Their Operation: Governor Kasich created the Office of Health Transformation (OHT) in January 2011 in order to immediately address Medicaid spending issues, plan for the long-term, efficient administration of Ohio's Medicaid program and improve overall healthcare system performance in Ohio

  As part of H.B. 59, the reform efforts that began in 2011 continued for fiscal years 2014 and 2015 including, reducing Medicaid fraud and abuse, capping Medicaid managed care spending at three percent annual growth, reducing avoidable hospital readmissions, targeting direct medical education funds toward workforce priorities, helping individuals with mental illness who live in nursing facilities to transition into home- and community- based settings, increasing provider rates for home and community-based services, and committing Ohio to spend 50 percent of its Medicaid long-term care budget on non-institutional care.

Medicaid is Ohio's largest budgetary program, consuming nearly 47 percent of total fiscal year 2014 General Revenue Fund spending. Without the efforts in the area of health transformation, this program would likely grow at an even greater rate and reduce the budget flexibility Ohio needs in order to improve its competitiveness.

- Improving Educational Opportunities for Ohio Students: H.B. 59 allocated $1.1 billion in new state funds to put more dollars into the classroom in ways that help teachers respond to students' learning needs. As a result, state funding for education in fiscal year 2015 will exceed fiscal year 2011 actual state spending by $1.39 billion. Additionally, to encourage innovation, a new $250 million Straight A Fund is providing one-time grants to those districts with the will to take on ambitious new strategies for helping their students improve their achievement levels and increase their operational efficiency. Any savings generated through these transformations can be used by districts as they see fit, including efforts to improve classroom instruction or to make locally generated property tax revenues go further. Further, in fiscal year 2014 Ohio expanded EdChoice vouchers, including a pilot program providing scholarships for children entering Kindergarten whose families are under 200 percent of the poverty level. If a student's school is failing on the state's new 3rd Grade Reading Guarantee, parents can now receive a voucher scholarship to have their child attend another school.

- Improving Workforce Development and Reforming Higher Education Funding: To fill a gap in the current workforce development programs, Ohio invested $30 million to allow companies in Ohio's growth sectors to increase their competitive edge by providing training to their existing workforce. Ohio's Incumbent Workforce Training Voucher Program helps Ohioans who have jobs upgrade their skills so they can keep their positions and their employers can become more competitive.

  Also contributing to Ohio's qualified workforce was support for Ohio veterans by ensuring they receive the appropriate credit and credentialing for their military training and service in order to assist them with education and employment opportunities. As a result, in fiscal year 2014, Ohio continued to take steps to streamline and simplify the State's licensure process for military service men and women to ensure their relevant military experience, training and education is taken into account when determining equivalency for issuing professional licenses and certifications.

  The Kasich Administration engaged Ohio's state university presidents to propose ways to help increase the number of Ohioans with college degrees. As a result of this collaboration, more state higher education funding is now based on how many students successfully complete their degrees, while the share of state funding tied to student graduation was increased from 20 to 50 percent. Additionally, in order to keep college affordable, tuition and general fee increases on in-state undergraduate students is limited to no more than two percent at Ohio's four-year public institutions and $100 at the two-year community colleges.

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Mid-Biennium Review

Soon after passage of the fiscal year 2014 and 2015 biennial operating budget in June 2013, the Kasich Administration embarked on a second Mid-Biennium Review (MBR), a top-to-bottom analysis of state agency budgets, operations and programs.

This effort, led by the Office of Budget and Management, produced hundreds of recommendations for reforms designed to reduce the cost of government and revitalize Ohio's ability to keep and attract jobs.

Proposals generated by the MBR included efficiencies and reform initiatives affecting education, energy policy, healthcare, tax reform, and workforce development and higher education reform. While the primary MBR bill was H.B. 483, which was enacted in June 2014, a number of other MBR bills were enacted as well. Among the enacted MBR's initiatives were those aimed at:

- Reducing the Cost of State Agency Operations: Among its achievements, the MBR identified ways to cut more than $50.2 million from agency budgets in fiscal years 2014 and 2015, while making significant changes that streamline government operations and improve delivery of services. Many reductions and reforms – including those focused on continuing to reform the State's system of taxation – were enacted by the General Assembly in House Bill 483, which was signed by Governor Kasich on June 16, 2014.

- Advancing Education, Workforce Training, and Higher Education Reform in Ohio: High-quality education and training programs help ensure that Ohioans can take advantage of our state's ever-expanding economic opportunities and that job-creators have the workforce they need to compete and succeed. Highlights of new MBR help achieve these goals by providing new efforts to help prevent students from dropping out of high school, mentorship strategies to boost community support for schools and help students get motivated about careers, permitting students as young as the 7th grade to begin learning about careers via our high-quality vocational education schools, providing more students an early start on college credits while they are still in high school, focusing our colleges more on successful student outcomes rather than just enrollment rates, and giving our veterans an easier transition to the home front with academic credit for military training and experience.

  The MBR also provided incentives to colleges to graduate students, by extending the new higher education funding formula enacted in H.B. 59 for four-year colleges and universities to community colleges. Not Just Enroll Them: To help increase the number of Ohioans with degrees, the state budget for fiscal year 2014-As a result, state funding for community and technical colleges will also be based on successful course, degree, and certificate completions, rather than course enrollments. The MBR provided the final piece of this policy for two-year schools, completing the transition for all public colleges and universities. As a result, in a period of just two years (fiscal year 2013 to fiscal year 2015), Ohio's community colleges have gone from being funded almost entirely based on earmarks and student enrollment to being funded 100 percent based on successful student outcomes. Furthermore, although the new community college formula rewards student success, it also protects access to higher education by providing schools with greater payments for older, low income, and minority students that are successful.

- Accelerating Income Tax Reductions, Providing Tax Relief for middle and low income tax payers, and Expanding the Small Business Deduction: Made possible by continued conservative management in fiscal year 2014, in the MBR, Ohio was able to both accelerate the ten percent income tax rate reduction with the entirety (as opposed to the nine percent originally enacted) took effect for taxable year 2014. Additionally, H.B. 483, the main MBR bill expanded the state's Earned Income Tax Credit and targeted new increases to the income tax's personal exemption for low and middle-income families to help ensure that all Ohioans share in our state's on-going economic recovery. Furthermore, due to the combination of revenues above estimate and spending below estimate in fiscal year 2014, a portion of the fiscal year 2014 surplus was applied to provide a temporary, one year increase in the small business tax deduction for taxable year 2014 as the deduction will apply in that year to 75 percent of the first $250,000 in business income.

Capital Budgets

Fiscal year 2014 also saw the continuation of implementation of the Kasich Administration's capital budget proposal for the 2013 and 2014 fiscal biennium – the state's first capital budget in four years as well as the passage of a capital budget proposal for 2015 and 2016. The resulting legislation (H.B. 497) was enacted by the General Assembly and signed by the Governor on April 1, 2014. Focusing on schools, higher education, technological research and workforce development, this capital budget will invest more than $2.38billion in fiscal years 2015 and 2016 to maintain and improve the state's educational and public service infrastructure in ways that help keep Ohio a leader in the competitive world economy.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

In conclusion, I wish to express my appreciation to the Financial Reporting staff of OBM's State Accounting Section and staffs of the various state agencies whose time and dedicated efforts made this report possible. I encourage you to access Ohio's Comprehensive Annual Financial Report at *http://www.obm.ohio.gov*.

Respectfully submitted,

Timothy S. Keen
Director

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STATE OF OHIO OFFICIALS

As of June 30, 2014

EXECUTIVE

John Kasich
Governor

Mary Taylor
Lieutenant Governor

Mike Dewine
Attorney General

Dave Yost
Auditor of State

Josh Mandel
Treasurer of State

Jon Husted
Secretary of State

LEGISLATIVE

Keith Faber
President of the Senate

William G. Batchelder
Speaker of the House

JUDICIAL

Maureen O’Connor
Chief Justice
Supreme Court

STATE OF OHIO ORGANIZATION CHART

FINANCIAL REPORTING ENTITY

PRIMARY GOVERNMENT

LEGISLATIVE	EXECUTIVE	JUDICIAL
Senate (33 Members) **House of Representatives** (99 Members)	**Governor** **Lieutenant Governor** **Attorney General** **Auditor of State** **Secretary of State** **Treasurer of State** **State Board of Education** (11 Elected Members, and 6 At-Large Members)	**Supreme Court** Chief Justice and 6 Justices
Governmental Activities: *General Government:* Senate House of Representatives Legislative Service Commission Legislative Committees	**Governmental Activities:** *Primary, Secondary and Other Education:* Arts Council Broadcast Educational Media Commission Department of Education Educational Telecommunications School for the Blind School for the Deaf State Library Board *Higher Education Support:* Board of Regents Career Colleges and Schools Board *Public Assistance and Medicaid:* Department of Job and Family Services Department of Medicaid *Health and Human Services:* Department of Aging Department of Health Department of Mental Health and Addiction Services Department of Developmental Disabilities Department of Veteran Services Hispanic-Latino Affairs Commission Minority Health Commission Opportunities for Ohioans with Disabilities *Justice and Public Protection:* Adjutant General Board of Tax Appeals Civil Rights Commission Department of Public Safety Department of Rehabilitation and Correction Department of Youth Services Ethics Commission Office of the Attorney General Public Defender Commission *Environmental Protection and Natural Resources:* Department of Natural Resources Environmental Protection Agency Environmental Review Appeals Lake Erie Commission *Transportation:* Department of Transportation	**Governmental Activities:** *Justice and Public Protection:* Supreme Court Judicial Conference Judiciary Court of Claims

PRIMARY GOVERNMENT (Continued)

General Government:
Capitol Square Review & Advisory Board
Consumers' Counsel
Department of Administrative Services
Department of Commerce
Department of Insurance
Department of Taxation
Office of Budget and Management
Office of the Governor
Office of the Inspector General
Office of the Lieutenant Governor
Office of the Secretary of State
Office of the Treasurer of State
Public Utilities Commission
Racing Commission
Sinking Fund Commission
Other Boards and Commissions

Community and Economic Development:
Department of Agriculture
Development Services Agency
Expositions Commission
Public Works Commission
Southern Ohio Agricultural & Community Development Foundation

Business-Type Activities:
Bureau of Workers' Compensation and Industrial Commission
Department of Job and Family Services—Unemployment Compensation Program
Lottery Commission
Office of the Auditor of State
Tuition Trust Authority

COMPONENT UNITS

Blended Component Units:
Buckeye Tobacco Settlement Financing Authority (included as Governmental Activities)

Fiduciary Component Unit:
State Highway Patrol Retirement System

Discretely Presented Component Units:
Financing Authorities and Commissions:
Ohio Air Quality Development Authority
Ohio Capital Fund
Ohio Facilities Construction Commission
Ohio Turnpike and Infrastructure Commission

Nonprofit Organizations:
Jobs Ohio

Discretely Presented Component Units (continued):
State Universities:
Bowling Green State University
Central State University
Cleveland State University
Kent State University
Miami University
Northeast Ohio Medical University
Ohio State University
Ohio University
Shawnee State University
University of Akron
University of Cincinnati
University of Toledo
Wright State University
Youngstown State University

State Community Colleges:
Cincinnati State
Clark State
Columbus State
Edison State
Northwest State
Owens State
Southern State
Terra State
Washington State

JOINT VENTURES

Great Lakes Protection Fund
Local Community Colleges Technical Colleges

RELATED ORGANIZATIONS

Higher Education Facility Commission
Ohio Housing Finance Agency
Ohio Legal Assistance Foundation
Ohio Water Development Authority
Petroleum Underground Storage Tank Release Compensation Board

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Esser

Executive Director/CEO