State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Introduction
This section of the State of Ohio's annual financial report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2015. The management's discussion and analysis section should be read in conjunction with the preceding transmittal letter and the State's financial statements, which follow.

Financial Highlights
Government-wide Financial Statements
During fiscal year 2015, net position of the State's primary government decreased by $1.6 billion, and ended fiscal year 2015 with a balance of $28.6 billion. Net position of the State's component units decreased by $5.14 billion, and ended fiscal year 2015 with a balance of $9.56 billion. See additional discussion beginning on page 8.

Fund Financial Statements
Governmental funds reported a combined ending fund balance of $13.43 billion that was comprised of $129.8 million in nonspendable, $8.89 billion restricted for specific purposes, $1.41 billion committed, $2.57 billion in assigned, and $410.9 million in unassigned. See additional discussion beginning on page 11.

As of June 30, 2015, the General Fund's fund balance was approximately $5 billion, including $49.7 million in nonspendable, $1.15 billion in restricted, $803.6 million in committed, $2.59 billion in assigned, and $411.2 million in unassigned. The General Fund's fund balance decreased by $688.2 million (exclusive of a $3.6 million decrease in inventories) or 12.1 percent during fiscal year 2015. See additional discussion beginning on page 12.

Proprietary funds reported net position of $9.28 billion, as of June 30, 2015, an increase of $337.6 million since June 30, 2014. This increase is largely due to the net increase of $590.5 million in the Unemployment Compensation Fund. See additional discussion beginning on page 13.

Capital Assets
The carrying amount of capital assets for the State's primary government increased to $26.73 billion at June 30, 2015. The majority of the $754.4 million increase during fiscal year 2015 was from the acquisition of machinery and equipment and construction-in-progress projects. See additional discussion beginning on page 14.

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 decreased $33.8 million or .2 percent during fiscal year 2015, for an ending balance of $17.7 billion. During the year, the State issued, at par, $1.37 billion of long-term debt of which $316.9 million was refunding bonds. See additional discussion beginning on page 15.

Overview of the Financial Statements
This annual report consists of three required components: management's discussion and analysis, basic financial statements, including the accompanying notes to the financial statements, and required supplementary information. In addition, this report includes an optional section that contains combining statements and schedules for the nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component unit funds.

The basic financial statements are comprised of the government-wide financial statements and fund financial statements. The figure on the following page summarizes the major features of these statements.

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

Government-wide Financial Statements – Reporting the State as a Whole

The two government-wide financial statements, prepared on a basis and focus similar to those used by private-sector companies, report the State's net position and how it has changed. Net position — the difference between the State's assets/deferred outflows of resources and liabilities/deferred inflows of resources — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net position 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.

These statements, found on pages 20 through 23 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, and transportation. Taxes, federal grants, and charges for services, fees, fines and forfeitures 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, guaranteed college tuition credit program, and the Auditor of State's governmental auditing and accounting services.

Component Units — The State presents the financial activities of the Ohio Facilities Construction Commission, Ohio State University, and other entities as discretely presented component units under a separate column in the government-wide financial statements. The Buckeye Tobacco Settlement Financing Authority is presented as a blended component unit with its activities blended and included under governmental activities. Although legally separate, the State is financially accountable for its component units. For further explanation and a complete list of component units, see NOTE 1A. to the financial statements.

Fund Financial Statements – Reporting more detail about the State's most significant funds

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 basic fund financial statements can be found on pages 24 through 45 of this report while the combining fund statements and schedules can be found on pages 157 through 233. The State has the following three kinds of 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. Because these statements do not encompass the 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, Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, all of which are considered major funds. Data from the other governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

For budgeted governmental funds, the State also presents budgetary comparison statements and schedules in the basic financial statements and combining statements, respectively, to demonstrate compliance with the appropriated budget. The State's budgetary process is explained further in NOTE 1D. to the financial statements.

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.

Presented under separate columns on the three statements is information for the Workers' Compensation, Lottery Commission, and Unemployment Compensation enterprise funds, all of which are considered to be major funds. Data from the other enterprise funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The enterprise funds are the same as the State's business-type activities reported in the government-wide financial statements, but the proprietary fund financial statements provide more detail and additional information, such as information on cash flows.

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. 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 are presented on two statements. Fiduciary information is excluded from the government-wide financial statements because the State cannot use these assets to finance its operations.

Discretely Presented Component Unit Statements (Component Unit)

Following the fund financial statements, the State includes statements for its major discretely presented component units within the basic financial statements section. Nonmajor discretely presented component units are also presented in aggregation under a single column in the component unit financial statements and in combining statements elsewhere in this report.

Notes to the Financial Statements

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes can be found on pages 50 through 139 of this report.

Required Supplementary Information

Following the notes is a section of required supplementary information that 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. Also displayed in the required supplementary information are various schedules disclosing the State's share of pension obligation, employer contributions required as compared to employer contributions actually paid, and covered payroll, for the various retirement systems in which the State participates. Required supplementary information can be found on pages 142 through 153 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Position. During fiscal year 2015, as shown in the table below, the combined net position of the State's primary government decreased by $1.6 billion or 5.3 percent. Net position reported for governmental activities decreased approximately $1.94 billion or 9.1 percent, compared to the net position on July 1, 2014, and business-type activities increased $337.6 million, or 3.8 percent. Condensed financial information derived from the Statement of Net Position for the primary government is presented in the following table.

Net Position
As of June 30, 2015 and 2014
(dollars in thousands)

	As of June 30, 2015			As of June 30, 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and Other Assets	$ 19,678,811	$ 30,420,334	$ 50,099,145	$ 19,472,327	$ 31,711,462	$ 51,183,789
Capital Assets	26,557,340	172,559	26,729,899	25,830,292	145,162	25,975,454
Total Assets	46,236,151	30,592,893	76,829,044	45,302,619	31,856,624	77,159,243
Deferred Outflows of Resources	4,948,308	22,899	4,971,207	4,689,267	-	4,689,267
Current and Other Liabilities	8,404,517	546,924	8,951,441	7,901,435	41,297	7,942,732
Noncurrent Liabilities	21,260,737	20,786,417	42,047,154	18,623,285	22,874,605	41,497,890
Total Liabilities	29,665,254	21,333,341	50,998,595	26,524,720	22,915,902	49,440,622
Deferred Inflows of Resources	2,201,389	4,086	2,205,475	2,212,211	-	2,212,211
Net Position:						
Net Investment in Capital Assets	23,396,447	159,466	23,555,913	22,627,911	129,804	22,757,715
Restricted	5,102,120	9,282,213	14,384,333	4,455,723	9,481,597	13,937,320
Unrestricted	(9,180,751)	(163,314)	(9,344,065)	(5,828,679)	(670,679)	(6,499,358)
Total Net Position	$ 19,317,816	$ 9,278,365	$ 28,596,181	$ 21,254,955	$ 8,940,722	$ 30,195,677

As of June 30, 2015, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was $23.56 billion. Restricted net position was approximately $14.38 billion, resulting in a $9.34 billion deficit. Net position is restricted when constraints placed on their use are either 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 position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets". The State's Budget Stabilization Fund balance of $1.48 billion at June 30, 2015, is included within unrestricted net position.

The government-wide Statement of Net Position reflects a $9.18 billion deficit for unrestricted governmental activities, which is primarily attributable to the following two reasons:

(1) 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 $11.06 billion of outstanding general obligation and special obligation debt at June 30, 2015, $8.1 billion is attributable to debt issued for state assistance to component units (Ohio Facilities Construction 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 Position as restricted net position. 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.

(2) During fiscal year 2015, the State implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68),* related to the measurement and reporting of the annual costs and long-term obligations associated with the pension benefits provided to State employees. These new standards require the State to record a proportionate share of the net pension liability of the associated pension plans. As a result of implementing these standards, the State is reporting a net pension asset, net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension on the accrual basis of accounting. This implemen-

tation also had the effect of restating net position at June 30, 2014 (See NOTES 2, 9, 14, 15, and 18 for more information).

Condensed financial information derived from the Statement of Activities, which reports how the net position of the State's primary government changed during fiscal years 2015 and 2014, follows.

Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014
(dollars in thousands)

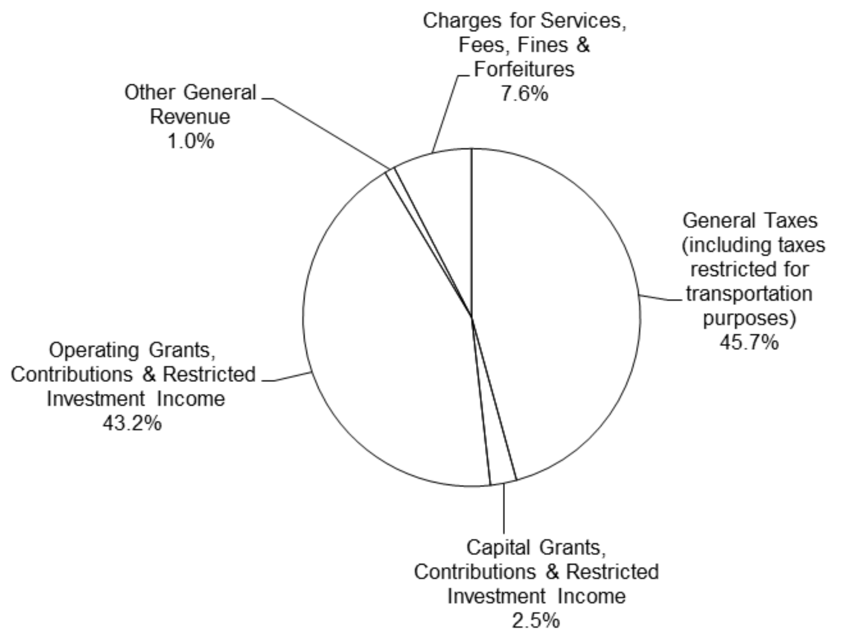
	Fiscal Year 2015			Fiscal Year 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees,						
Fines and Forfeitures	$ 4,220,431	$ 7,020,251	$ 11,240,682	$ 4,225,067	$ 6,709,764	$ 10,934,831
Operating Grants, Contributions and						
Restricted Investment Income/ (loss)	23,965,473	609,269	24,574,742	21,454,316	3,398,375	24,852,691
Capital Grants, Contributions and						
Restricted Investment Income/ (loss)	1,398,463	-	1,398,463	1,523,237	-	1,523,237
Total Program Revenues	29,584,367	7,629,520	37,213,887	27,202,620	10,108,139	37,310,759
General Revenues:						
General Taxes	23,526,620	-	23,526,620	22,126,159	-	22,126,159
Taxes Restricted for Transportation	1,827,134	-	1,827,134	1,782,437	-	1,782,437
Tobacco Settlement	284,267	-	284,267	362,472	-	362,472
Escheat Property	220,486	-	220,486	192,184	-	192,184
Unrestricted Investment Income	36,462	5	36,467	1,733	3	1,736
Other	275	-	275	839	11	850
Total General Revenues	25,895,244	5	25,895,249	24,465,824	14	24,465,838
Total Revenue	55,479,611	7,629,525	63,109,136	51,668,444	10,108,153	61,776,597
Expenses:						
Primary, Secondary and Other Education	12,767,328	-	12,767,328	12,287,325	-	12,287,325
Higher Education Support	2,536,850	-	2,536,850	2,474,851	-	2,474,851
Public Assistance and Medicaid	28,265,942	-	28,265,942	25,283,157	-	25,283,157
Health and Human Services	1,576,185	-	1,576,185	1,579,156	-	1,579,156
Justice and Public Protection	3,210,965	-	3,210,965	3,385,337	-	3,385,337
Environmental Protection and						
Natural Resources	507,889	-	507,889	419,539	-	419,539
Transportation	2,660,362	-	2,660,362	2,706,248	-	2,706,248
General Government	921,426	-	921,426	835,785	-	835,785
Community and Economic Development	3,518,678		3,518,678	3,448,735		3,448,735
Interest on Long term Debt						
(excludes interest charged as						
program expense)	102,980	-	102,980	103,283	-	103,283
Workers' Compensation	-	2,533,883	2,533,883	-	2,417,674	2,417,674
Lottery Commission	-	2,724,306	2,724,306	-	2,310,169	2,310,169
Unemployment Compensation	-	1,034,060	1,034,060	-	1,444,870	1,444,870
Tuition Trust Authority	-	71,801	71,801	-	72,215	72,215
Office of Auditor of State	-	70,032	70,032	-	70,586	70,586
Total Expenses	56,068,605	6,434,082	62,502,687	52,523,416	6,315,514	58,838,930
Surplus / (Deficiency) Before Gains (Losses)						
and Transfers	(588,994)	1,195,443	606,449	(854,972)	3,792,639	2,937,667
Gain (Loss) on Extinguishment of Debt	1,276	402,562	403,838	-	281,938	281,938
Transfers - Internal Activities	1,082,061	(1,082,061)	-	955,721	(955,721)	-
Change In Net Position	494,343	515,944	1,010,287	100,749	3,118,856	3,219,605
Net Position, July 1 (as restated)	18,823,473	8,762,421	27,585,894	21,154,206	5,821,866	26,976,072
Net Position, June 30	$ 19,317,816	$ 9,278,365	$ 28,596,181	$ 21,254,955	$ 8,940,722	$ 30,195,677

Governmental Activities

Expenses exceeded revenues during fiscal year 2015 for governmental activities. Revenues of $55.48 billion for fiscal year 2015 were $3.81 billion higher than those reported for fiscal year 2014. General taxes (including taxes restricted for transportation purposes) comprised 45.7 percent of fiscal year 2015 total revenues and increased by 6 percent compared to fiscal year 2014. Operating grants, contributions and restricted investment income, making up 43.2 percent of total revenues, increased by 11.7 percent compared to fiscal year 2014. Expenses for fiscal year 2015 increased $3.55 billion or 6.7 percent from fiscal year 2014, as a result of an overall increase in the Medicaid caseload and programmatic costs during fiscal year 2015. Fiscal year 2015 net transfers of $1.08 billion reflect an increase of 13.2 percent over fiscal year 2014.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2015.

Governmental Activities — Sources of Revenue
Fiscal Year 2015



Total FY 15 Revenue for Governmental Activities = $55.48 Billion

The following table presents the total expenses and net cost of each of the State's governmental programs for the fiscal year ended June 30, 2015, with comparative numbers from June 30, 2014. The net cost (total program expenses less revenues generated by the program) represents the financial burden that was placed on the State's taxpayers by each of these programs. This cost is essentially funded with the State's general revenues from taxes, tobacco settlement, and escheat property.

Program Expenses and Net Costs of Governmental Activities by Program
For the Fiscal Years Ended June 30, 2015 and 2014
(dollars in thousands)

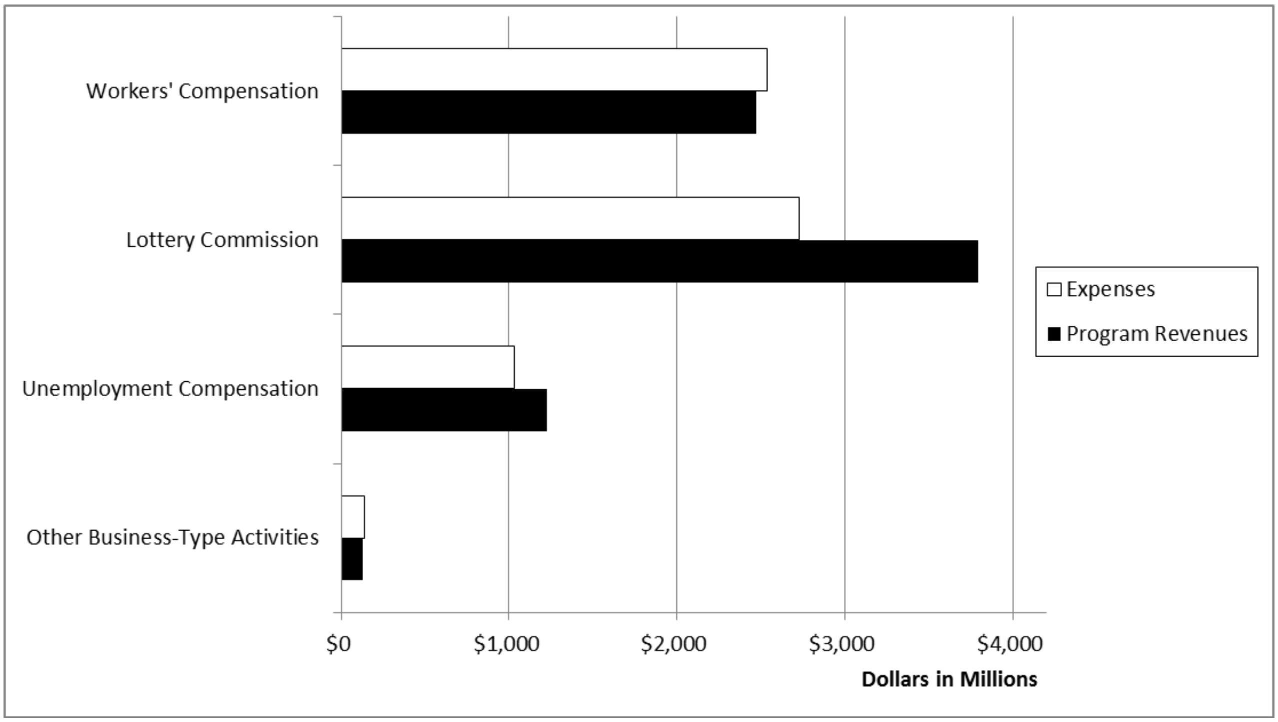
Program	Program Expenses 2015	Percent of Total Expense 2015	Net Cost of Program 2015	Net Cost of Program 2014	Net Cost as Percentage of Total Expenses for Program 2015	Net Cost as Percentage of Total Expenses for Program 2014	Net Cost as Percentage of Total Expenses — All Programs 2015	Net Cost as Percentage of Total Expenses — All Programs 2014
Primary, Secondary and Other Education	$ 12,767,328	22.8%	$ 10,853,098	$ 10,268,939	85.0%	83.6%	19.4%	19.6%
Higher Education Support	2,536,850	4.5%	2,512,276	2,450,561	99.0%	99.0%	4.5%	4.7%
Public Assistance and Medicaid	28,265,942	50.4%	6,249,536	5,979,517	22.1%	23.7%	11.1%	11.4%
Health and Human Services	1,576,185	2.8%	634,262	418,003	40.2%	26.5%	1.1%	0.8%
Justice and Public Protection	3,210,965	5.7%	1,993,353	2,174,618	62.1%	64.2%	3.6%	4.1%
Environmental Protection and Natural Resources	507,889	0.9%	201,521	120,837	39.7%	28.8%	0.4%	0.2%
Transportation	2,660,362	4.7%	896,786	998,487	33.7%	36.9%	1.6%	1.9%
General Government	921,426	1.6%	403,488	259,367	43.8%	31.0%	0.7%	0.5%
Community and Economic Development	3,518,678	6.3%	2,636,938	2,547,184	74.9%	73.9%	4.7%	4.8%
Interest on Long-Term Debt	102,980	0.2%	102,980	103,283	100.0%	100.0%	0.2%	0.2%
Total Governmental Activities	$ 56,068,605	100.0%	$ 26,484,238	$ 25,320,796	47.2%	48.2%	47.2%	48.2%

Business-Type Activities

The State's enterprise funds reported net position of $9.28 billion, as of June 30, 2015, as compared to $8.94 billion in net position, as of June 30, 2014, an increase of $337.6 million, or 3.8 percent. The Unemployment Compensation Fund reported a $590.5 million increase in net position during fiscal year 2015 as a result of a decline in the unemployment rate in Ohio and consequently a decline in benefit expense.

The chart below compares program expenses and program revenues for business-type activities. Additional analysis of the Business-Type Activities' revenues, expenses, and other changes in net position is included with the discussion of the Proprietary Funds beginning on page 13.

Business-Type Activities — Expenses and Program Revenues
Fiscal Year 2015



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, 2015 and June 30, 2014 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2015			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ 411,190	$ -	$ (306)	$ 410,884
Total Fund Balance	5,003,799	5,164,623	3,260,233	13,428,655
Total Revenues	34,496,350	11,171,778	9,211,914	54,880,042
Total Expenditures	33,941,965	11,258,380	12,864,647	58,064,992

	As of and for the Fiscal Year Ended June 30, 2014 (as restated)			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ 1,022,044	$ (163)	$ -	$ 1,021,881
Total Fund Balance	5,695,511	5,308,443	3,324,419	14,328,373
Total Revenues	32,617,219	9,998,925	9,106,010	51,722,154
Total Expenditures	30,971,219	10,273,103	12,445,942	53,690,264

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2015, General Fund revenue increased by $1.88 billion and expenditures increased by $2.97 billion. Increases of $785.6 million in sales tax revenue, primarily from a rate increase and strong growth in revenues from the tax on managed care premiums for Medicaid Health Insuring Corporations, $629.3 million in federal government revenue, related to Medicaid spending, and $496.4 million in personal income tax revenue all contributed to the rise in revenue. The increase in expenditures is primarily due to increases in program spending for Primary, Secondary and Other Education and Public Assistance and Medicaid of $452 million and $2.33 billion, respectively. Increase in Medicaid spending constituted the largest portion of the increase in the Public Assistance and Medicaid category. Other sources and uses showed a decrease of $268 million primarily from a decrease in bond issuance proceeds. Total fund balance at June 30, 2015 decreased by $688.2 million (exclusive of a $3.6 million decrease in inventories) or 12.1 percent. The State's Budget Stabilization Fund balance of $1.48 billion is included within unassigned fund balance.

General Fund Budgetary Highlights

The State ended the second year of its 2014-15 biennial budget on June 30, 2015, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $4.99 billion. Total budgetary sources for the General Fund (including $1.59 billion in transfers from other funds) in the amount of $37.71 billion were above final estimates by $488.1 million or 1.3 percent during fiscal year 2015. Total tax receipts were above final estimates by $390.2 million or 1.6 percent primarily as a result of the positive performance of the personal income tax quarterly estimated payments.

Total budgetary uses for the General Fund (including $2.05 billion in transfers to other funds) in the amount of $38.48 billion were below final estimates by $1.79 billion or 4.5 percent for fiscal year 2015. The majority of lower than appropriated spending came from Medicaid, economic development, revitalization, and public works programs. There was no budget stabilization designation at June 30, 2014, for use in balancing the final fiscal year 2015 budget.

The main appropriations act (Act) for the 2014-15 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2013. Reflecting a stated focus on job creation and continued spending restraint, and based on a conservative economic forecast, the Act provides for GRF appropriations of approximately $31.7 billion in fiscal year 2015, a 4.7 percent increase from fiscal year 2014 appropriations.

GRF appropriations for major program categories in fiscal year 2015 reflect the following increases relative to 2014 appropriations:

- 6.2 percent for Medicaid;
- 5.8 percent for primary and secondary education;
- 2.1 percent for higher education;
- .3 percent for mental health and addiction services and developmental disabilities; and
- .2 percent for corrections and youth services.

The Act reflects tax reductions and related adjustments of major State taxes, primarily in personal income and sales and use taxes. These reductions and adjustments were projected to reduce GRF revenues by approximately $771 million in fiscal year 2015. The Act also implements a new school funding formula and allocates a portion of State public higher education funding to institutions based on their graduation rates.

Subsequent to the passage of the Act, the State Controlling Board approved an increase to federal Medicaid appropriations by approximately $2 billion during fiscal year 2015. These additional federal appropriations were authorized to support the federally-authorized expansion of the Medicaid program to cover those with incomes up to 138 percent of the federal poverty level using 100 percent federal funds in fiscal year 2015.

On March 12, 2014, the Governor announced a series of initiatives resulting from a "mid-biennium review" (MBR) of the 2014 and 2015 biennium with the stated purpose of keeping Ohio moving forward. The proposals were introduced in the General Assembly in March 2014 as fourteen separate pieces of legislation. Seven of the fourteen bills were enacted by the General Assembly in May and June 2014 and addressed subjects of elementary and secondary education, higher education, personal income tax reductions and adjustments, workforce, and human services. The MBR also authorized a transfer from the GRF to a Medicaid reserve fund. Please see the Letter of Transmittal within the Introductory Section for additional information regarding the MBR.

The Ohio Constitution prohibits the State from borrowing money to fund operating expenditures in the GRF. Therefore, by law, the GRF's budget must be balanced so that appropriations do not exceed available cash receipts and cash balances for the current fiscal year.

The State ended fiscal year 2015 with a GRF cash balance of $1.71 billion and a GRF budgetary fund balance of $1.29 billion. In addition to meeting the State's statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2015 GRF revenues, the State transferred $425.5 million into the Budget Stabilization Fund (BSF) in early fiscal year 2016. The Medicaid Reserve Fund also transferred $101.1 million to the BSF, bringing the BSF's cash balance to $2.01 billion by the end of July 2015.

Other Major Governmental Funds
The Job, Family and Other Human Services Fund had a fund balance of $304.3 million at June 30, 2015, a decrease of $36.1 million, or 10.6 percent, compared to fiscal year 2014. Federal Government revenue increased by $1.26 billion, largely attributable to an overall increase in the Medicaid caseload and programmatic costs. Partially offsetting this increase is a decrease of $87.7 million in revenue collected from license, permits and fees.

The increase in Public Assistance and Medicaid expenditures of $980.4 million is primarily attributable to an overall increase in the Medicaid expansion population through the federal Affordable Care Act. A $27.6 million decrease in net Other Financing Sources over the prior fiscal year is largely attributable to a reduction in bonds and notes issued in fiscal year 2015 over fiscal year 2014 also contributed to the decline in the fund balance.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2015, totaled approximately $4.86 billion dollars, a decrease of $107.7 million or 2.2 percent since June 30, 2014. Debt Service expenditures increased by $1.4 million during fiscal year 2015 as a result of scheduled principal and interest payments on outstanding bonds. Additionally, Tobacco Settlement Receipts decreased by $6.7 million from June 30, 2014, which resulted in the decreased fund balance at June 30, 2015.

Proprietary Funds
Major Proprietary Funds
The State's proprietary fund financial statements report the same type of information found in the business-type activities portion of the government-wide financial statements, but in a slightly different format.

The *Workers' Compensation Fund's* net position decreased $191.9 million to $9.27 billion at June 30, 2015. During the fiscal year, investment income decreased $2.5 billion, largely due to an approximately 11.2 percent decrease in the net return on its investment portfolio. The healthy net position brought over from the prior year was enough to mostly offset the decreased income thus resulting in only a two percent decrease in net position.

For fiscal year 2015, the *Lottery Commission Fund* reported $1.07 billion in net income before transfers of approximately $1.09 billion. The $40.6 million decrease in the fund's net position to approximately $261.4 million, as of June 30, 2015, was largely attributable to a $223 million increase in video lottery terminal commission expenses from the opening of two new racinos and a $177.3 million increase in prizes expense connected with increased ticket sales. In addition, the Commission transferred a record high amount to the Lottery Profits Education Fund. Partly offsetting these expense and transfer increases was a $489.3 million increase in charges for sales and services revenue that was primarily due to increased video lottery terminal revenue at of the two new racinos.

The $590.5 million increase in net position in the *Unemployment Compensation Fund* is primarily due to a continued decline in the unemployment rate. The unemployment rate in Ohio dropped from an average of 6.6 percent in fiscal year 2014 to an average of 5.3 percent in fiscal year 2015. The decrease in the unemployment rate caused the State's benefits and claims expense to decrease by $419.9 million or 29.1 percent from the previous fiscal year. While the benefits and claims expense decreased, the State also received less money from the federal government. During fiscal year 2015, the State received $17.5 million of federal funding compared to $293.9 million in fiscal year 2014 resulting in a 94 percent decrease. Contributing to the overall increase in net position is a $402.6 million gain on extinguishment of debt (for the Federal Unemployment Tax Act credit, see NOTE 2).

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, and June 30, 2014, the State had invested $26.73 billion and $25.98 billion, respectively, net of accumulated depreciation of $3.83 billion and $3.63 billion, respectively, in a broad range of capital assets, as detailed in the table on the following page.

The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 2.9 percent (a 2.8 percent increase for governmental activities and an 18.9 percent increase for business-type activities). Depreciation expense increased 10.9 percent for governmental activities.

The State completed construction on a variety of projects at various state facilities during fiscal year 2015 totaling approximately $216 million, as compared with $481.9 million in the previous fiscal year. As is further detailed in NOTE 20D of the notes to the financial statements, the State had $239.5 million in major construction commitments (unrelated to infrastructure), as of June 30, 2015, as compared with $172.3 million for 2014.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2015 and 2014
(dollars in thousands)

	As of June 30, 2015			As of June 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,323,700	$ 11,994	$ 2,335,694	$ 2,283,721	$ 11,994	$ 2,295,715
Buildings	1,556,212	42,873	1,599,085	1,567,898	49,778	1,617,676
Land Improvements	161,190	6	161,196	168,251	7	168,258
Machinery and Equipment	649,737	32,684	682,421	240,356	20,906	261,262
Vehicles	158,518	1,330	159,848	173,840	1,363	175,203
Infrastructure:						
Highway Network:						
General Subsystem	8,594,583	-	8,594,583	8,568,626	-	8,568,626
Priority Subsystem	8,469,414	-	8,469,414	8,455,171	-	8,455,171
Bridge Network	2,849,116	-	2,849,116	2,893,240	-	2,893,240
Parks, Recreation, and Natural Resources System	80,025	-	80,025	89,310	-	89,310
	24,842,495	88,887	24,931,382	24,440,413	84,048	24,524,461
Construction-in-Progress	1,714,845	83,672	1,798,517	1,389,879	61,114	1,450,993
Total Capital Assets, Net	$26,557,340	$ 172,559	$26,729,899	$25,830,292	$ 145,162	$25,975,454

Modified Approach

For reporting its highway and bridge infrastructure assets, the State has adopted the use of the modified approach. To use this approach, a government must maintain an asset management system and demonstrate that the infrastructure is being preserved approximately at or above an established condition level. Under this approach, infrastructure is not depreciated, and maintenance and preservation costs are expensed. Infrastructure assets accounted for using the modified approach include approximately 43,198 lane miles of highway and approximately 106.2 million square feet of deck area that comprises 14,229 bridges for which the State has the responsibility for ongoing maintenance.

Ohio accounts for its pavement network in two subsystems: Priority and General. 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 to be classified with a "poor" condition rating. The most recent condition assessment, completed by the Ohio Department of Transportation (ODOT) for fiscal year 2015, indicates that only 1.2 percent and .6 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For fiscal year 2014, only 1.1 percent and .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 ODOT for fiscal year 2015, indicates that only 2.4 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions. For fiscal year 2014, 3.4 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions.

For fiscal year 2015, total actual maintenance and preservation costs for the pavement network were $887.8 million, compared to estimated costs of $769.7 million, while total actual maintenance and preservation costs for the bridge network was $571.7 million, $37.1 million above estimate. For the previous fiscal year, total actual maintenance and preservation costs for the pavement network were $826.9 million, compared to estimated costs of $771.7 million, while total actual maintenance and preservation costs for the bridge network was $528 million, $22.6 million below estimate. Overall, the State's costs for actual maintenance and preservation for highway infrastructure assets have exceeded estimates over the past two years due to steadily increasing underlying costs for the materials and labor associated with infrastructure projects.

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

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds and notes are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds are supported with lease payments from tenants of facilities constructed with the proceeds from the bonds. 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 2015, the State issued, at par, $754.3 million in general obligation bonds, $218.1 million in revenue bonds, $316.6 million in special obligation bonds, and $76.2 million in certificates of participation. Of the general obligation bonds, revenue bonds, and special obligation bonds issued, at par, $212.3 million, $62.3 million, and $42.3 million, respectively, were refunding bonds. The total decrease in the State's debt obligations for the current fiscal year, as based on carrying amount, was .2 percent, all in governmental activities.

As of June 30, 2015, and June 30, 2014, the State had total debt of approximately $17.7 billion and $17.73 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2015 and 2014
(dollars in thousands)

	Governmental Activities	
	June 30, 2015	June 30, 2014
Bonds and Notes Payable:		
General Obligation Bonds......................	$ 9,149,056	$ 9,366,348
Revenue Bonds and Notes.....................	6,409,774	6,355,222
Special Obligation Bonds.......................	1,906,844	1,836,136
Certificates of Participation........................	231,837	173,603
Total Debt..	$ 17,697,511	$ 17,731,309

Credit Ratings

Both the State's general and special obligation bonds carry a "stable" credit outlook from all three crediting rating agencies. A credit outlook is an indication of the pressure on the rating over the near-to-intermediate term and should not be viewed as a precursor to a rating change.

The ratings and rating outlooks in effect from time to time reflect only the views of the particular rating organization. An explanation of its view of the meaning and significance of its rating or outlook may be obtained from the respective rating agency. Generally, the rating agencies base their rating on submitted information and on their own investigations, studies, and assumptions. There can be no assurance that the ratings or outlooks assigned will continue for any given time. Rating agencies may lower or withdraw a rating at any time, if in its judgment circumstances so warrant.

The State's bonds and notes are rated as follows:

Credit Ratings
As of June 30, 2015

Bonds and Notes	Issuer	Fitch Inc.	Moody's Investor Services, Inc.	Standard & Poor's Ratings Services	Security and Source of Funds
General Obligations Bonds:					
Common Schools Capital Facilities	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Higher Education Capital Facilities	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Highway Capital Improvements	Treasurer of State	AA+	Aa1	AAA	Highway User Receipts
Infrastructure Improvements	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Coal Research and Development	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Natural Resources Capital Facilities ...	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Conservation Projects	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Development	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Site Development	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Veterans' Compensation	Ohio Public Facilities Commission	AA+	Aa1	AA+	General Revenue Funds
Revenue Bonds:					
State Infrastructure Bank....................	Treasurer of State	N/A	Aa2	AA	Federal Transportation Grants and Loan Receipts
Tobacco Settlement Asset-Backed.....	Buckeye Tobacco Settlement Financing Authority	B- to BBB+	Caa1 to Aaa	B- to BBB+	Pledged Receipts from the Tobacco Master Settlement Agreement
Special Obligation Bonds:					
Mental Health Facilities.......................	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Parks and Recreation Facilities...........	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Cultural and Sports Facilities..............	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Adult Correctional Facilities.................	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Administrative Facilities.......................	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Juvenile Correctional Facilities............	Treasurer of State	AA	Aa2	AA	General Revenue Funds
Transportation Building Projects.........	Treasurer of State	AA	Aa2	AA	Highway User Receipts
Highway Safety Facilities.....................	Treasurer of State	AA	Aa2	AA	General Revenue Funds

Limitations on Debt

Section 17 of Article VIII of the Ohio Constitution, approved by Ohio voters in November 1999, establishes an annual debt service "cap" applicable to future issuances of direct obligations payable from the GRF or net state lottery proceeds. Generally, new obligations may not be issued if debt service for any future fiscal year on those new and the then outstanding bonds of those categories would exceed five percent of the total of estimated GRF revenues plus net state lottery proceeds for the fiscal year of issuance.

Those direct obligations of the State include general obligation and special obligation bonds that are paid from the State's GRF, but exclude general obligation debt for Third Frontier Research and Development, development of sites and facilities, and veterans compensation, and general obligation bonds payable from non-GRF funds (such as highway bonds that are paid from highway user receipts). Pursuant to the implementing legislation, the Governor has designated the Director of the Ohio Office of Budget and Management as the State official responsible for making the five percent determinations and certifications. Application of the five percent cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

The State met the requirements of Section 17 of Article VIII of the Ohio Constitution and 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 to the financial statements.

Conditions Expected to Affect Future Operations

Economic Factors

Through October 2015, leading economic indicators continue to point toward modest, uninterrupted economic expansion across the country and in Ohio. The Ohio unemployment rate in October 2015 was 4.4 percent, .6 percentage points below the national unemployment rate. From October 2014 to October 2015, Ohio's nonfarm payroll employment increased by 77 thousand jobs.

Nationally, real gross domestic product (GDP) slowed to 1.5 percent in the third quarter of calendar year 2015, down from 3.9 percent in the second quarter, but still up from .6 percent in the first quarter. Year-over-year growth was a subdued 2 percent.

The national labor market outlook strengthened further in October 2015, as the level of nonfarm payroll employment increased by 271 thousand jobs. The U.S. unemployment rate for October 2015 was five percent, down from 5.1 percent in September, and down from 5.7 percent in October 2014.

The 2016-17 Biennial Budget

The main appropriations act (Act) for the 2016-17 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2015. Reflecting a stated continuing focus on job creation, and based on a conservative economic forecast, that Act provides for GRF appropriations of approximately $34.9 billion in fiscal year 2016, a 13.1 percent increase over fiscal year 2015 actual spending, and $36.3 billion in fiscal year 2017, a 4.2 percent increase over fiscal year 2016 appropriations.

GRF appropriations for major program categories in fiscal years 2016 and 2017 reflect the following increases: for Medicaid, 21.8 percent in fiscal year 2016 (driven in large part by the shift in funding to the GRF from non-GRF sources beginning in fiscal year 2016 for the Medicaid expansion population), and 5.1 percent for fiscal year 2017; for elementary and secondary education, five percent for fiscal year 2016, and 4.2 percent for fiscal year 2017; for higher education, 4.5 percent for fiscal year 2016, and 3.3 percent for fiscal year 2017; for mental health and developmental disabilities, 9.1 percent for fiscal year 2016, and 7.3 percent for fiscal year 2017; for corrections and youth services, 4.8 percent for fiscal year 2016 appropriations, and 3.0 percent for fiscal year 2017. The Act also modifies the school funding formula to distribute new resources to districts with less capacity to raise revenues locally and freezes tuition and fees for two- and four year higher education institutions.

The Act reflects tax reductions and related adjustments of major State taxes, primarily in personal income taxes. These reductions and adjustments are projected to reduce GRF revenues by approximately $869 million in fiscal year 2016 and by approximately $952 million in fiscal year 2017.

General Revenue Fund

For fiscal year 2016, total fiscal year-to-date GRF receipts collected through October 2015 are $35.7 million above estimates and $1.38 billion higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2015 are $390.3 million below estimates for the first four months of fiscal year 2016 and $712.9 million above expenditures for the first four months of the prior fiscal year. As of October 2015, receipts were .3 percent above budget estimates and disbursements were three percent below budget estimates for fiscal year 2016. Fiscal year 2016 receipts are 13.5 percent ahead of receipts for the first four months of fiscal year 2015. Disbursements for fiscal year 2016 are six percent above disbursements for the same time period of fiscal year 2015.

Budget Stabilization Fund

The Budget Stabilization Fund (BSF) is Ohio's rainy day savings account, a reserve balance set aside in good economic times to protect the State's budget from cyclical changes in revenues and expenditures should the economy become weakened unexpectedly. By law, the maximum balance for the BSF had for many years been set at five percent of the prior fiscal year's GRF revenues. In June 2015, Governor Kasich signed a provision that increased the authorized maximum BSF balance to 8.5 percent of GRF revenues. After depositing $526.6 million into the BSF in July 2015, the BSF has reached a record-high balance in excess of $2 billion, the strongest reserves in State history.

Workers' Compensation Fund

The Bureau of Workers' Compensation (BWC) is in the process of transitioning its premium collection model to a prospective payment system that will provide more flexibility for employers while reducing overall systems costs. The change will align BWC with standard industry practice and will enable BWC to collect premiums before extending coverage. Private employers transitioned to prospective billing on July, 1, 2015, while public employer taxing districts will transition on January 1, 2016. The prospective billing system resulted in an overall base rate reduction of two percent for private employers and four percent for public employers and provides for increased ability to detect employer non-compliance and fraud. Transitional one-time premium credits are planned to eliminate any double payment by employers.

House Bill 52, signed by the Governor in June 2015, allows BWC to transfer investment income from the State Insurance Fund (SIF) to cover the cost of the Disabled Workers' Relief Fund (One) benefits for private and public taxing district employers rather than levying assessments against these employers. BWC management will recommend that the Board of Directors approve the use of the SIF investment earnings and will then record a $582 million liability in the SIF that will result in $582 million decrease to the net position of BWC during fiscal year 2016.

Unemployment Compensation Fund

During fiscal years 2009 and 2010, the State sought federal assistance in meeting its unemployment benefit costs and received repayable advances in the Unemployment Trust Fund of $2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during those fiscal years. The State continues to make principal and interest payments on these advances. During fiscal year 2015, Federal Unemployment Tax Act (FUTA) credits of $402.6 million also offset the outstanding repayable advances. As of June 30, 2015, the outstanding repayable advances balance is $978.5 million. More information relating to the FUTA credits and remaining advances can be found in NOTE 2D and NOTE 14, respectively.

Contacting the Ohio Office of Budget and Management

This financial report is designed to provide the State's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to the Ohio Office of Budget and Management, Financial Reporting Section, 30 East Broad Street, 34th Floor, Columbus, Ohio 43215-3457 or by e-mail at obm@obm.state.oh.us.