

State of Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

(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, 2018. 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 2018, net position of the State's primary government increased by \$42.4 million, after prior year restatements, and ended fiscal year 2018 with a \$27.25 billion balance. Net position of the State's component units increased by \$2.6 billion, after prior year restatements, and ended fiscal year 2018 with a \$10.05 billion balance. See additional discussion beginning on page 8.

Fund Financial Statements

Governmental funds reported a combined ending fund balance of \$14.07 billion that was comprised of \$136.6 million in nonspendable, \$9.18 billion restricted for specific purposes, \$1.55 billion committed, \$2.54 billion in assigned, and \$666 million in unassigned. See additional discussion beginning on page 12.

As of June 30, 2018, the General Fund's fund balance was approximately \$5.5 billion, including \$52.3 million in nonspendable, \$1.47 billion in restricted, \$772.5 million in committed, \$2.54 billion in assigned, and \$667.9 million in unassigned. The General Fund's fund balance increased by \$108.2 million (exclusive of a \$733 thousand increase in inventories) or two percent during fiscal year 2018. See additional discussion beginning on page 12.

Proprietary funds reported net position of \$11.12 billion, as of June 30, 2018, an increase of \$549.5 million since June 30, 2017, after prior year restatements. This increase is largely due to the net increase of \$330.1 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 \$28.17 billion at June 30, 2018. The majority of the \$421.4 million increase during fiscal year 2018 was from additions to 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 increased \$914.5 million or 5.1 percent during fiscal year 2018, for an ending balance of \$18.87 billion. During the year, the State issued a par amount of \$2.69 billion in long-term debt of which \$748.5 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				
	Government-wide Statements	Fund 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	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • 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 43 of this report while the combining fund statements and schedules can be found on pages 175 through 253. The State has three kinds of funds as follows:

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 schedules in required supplementary information and combining statements 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 also fiduciary of some agency funds. 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 additional detail that is essential to a full understanding of the data presented in the financial statements. The notes can be found on pages 48 through 145 of this report.

Required Supplementary Information

Following the notes is a section of required supplementary information in three parts. The first part 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. The second part presents schedules disclosing the following for the various retirement systems in which the State participates: the State's share of pension and other postemployment benefit (OPEB) obligations, required employer contributions for pension/actuarially determined employer contributions for OPEB as compared to employer contributions actually paid, and covered payroll. The final part is the budgetary comparison schedule for the General Fund and major special revenue fund and the accompanying note that explains the GAAP versus budgetary basis. Required supplementary information can be found on pages 147 through 173 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Position. During fiscal year 2018, as shown in the table below, the combined net position of the State's primary government increased by \$42.4 million or 0.2 percent, after prior year restatements. Net position reported for governmental activities decreased approximately \$507.1 million or three percent, compared to the restated net position on July 1, 2017 (see Note 2), and business-type activities increased \$549.5 million, or 5.2 percent, after prior year restatements. 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, 2018 and 2017 <i>(dollars in thousands)</i>						
	As of June 30, 2018			As of June 30, 2017 (as restated)		
	Governmental Activities	Business- Type Activities	Total Primary Government	Governmental Activities	Business- Type Activities	Total Primary Government
Current and Other Assets	\$ 20,744,766	\$ 30,291,875	\$ 51,036,641	\$ 19,854,708	\$ 30,114,503	\$ 49,969,211
Capital Assets.....	28,005,589	165,529	28,171,118	27,567,236	182,515	27,749,751
Total Assets.....	48,750,355	30,457,404	79,207,759	47,421,944	30,297,018	77,718,962
Deferred Outflows of Resources.....	5,121,436	87,464	5,208,900	6,040,976	138,487	6,179,463
Current and Other Liabilities.....	8,738,490	620,237	9,358,727	8,204,786	595,194	8,799,980
Noncurrent Liabilities.....	26,176,978	18,704,730	44,881,708	26,566,350	19,257,464	45,823,814
Total Liabilities.....	34,915,468	19,324,967	54,240,435	34,771,136	19,852,658	54,623,794
Deferred Inflows of Resources.....	2,823,393	101,698	2,925,091	2,051,745	14,181	2,065,926
Net Position:						
Net Investment in Capital Assets.....	24,363,007	162,367	24,525,374	24,140,366	176,237	24,316,603
Restricted.....	4,557,063	10,891,404	15,448,467	5,414,054	10,289,305	15,703,359
Unrestricted.....	(12,787,140)	64,432	(12,722,708)	(12,914,381)	103,124	(12,811,257)
Total Net Position.....	\$ 16,132,930	\$ 11,118,203	\$ 27,251,133	\$ 16,640,039	\$ 10,568,666	\$ 27,208,705

As of June 30, 2018, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was \$24.53 billion. Restricted net position was approximately \$15.45 billion, resulting in an unrestricted \$12.72 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 over \$2.03 billion at June 30, 2018, is included within unrestricted net position.

The government-wide Statement of Net Position reflects a \$12.79 billion deficit for unrestricted governmental activities, which is primarily attributable to the following three factors:

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 \$11.97 billion of outstanding general obligation and special obligation debt at June 30, 2018, \$8.52 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) The State reported liabilities of \$3.51 billion as of June 30, 2018, for its proportionate share of the net pension liability of the associated pension plans that provide benefits to State employees. This liability amount was a 28.7 percent decrease from fiscal year 2017.

3) During fiscal year 2018, the State implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), related to the measurement and reporting of the annual costs and long-term obligations associated with the OPEB benefits provided to State employees. This new standard requires the State to record a proportionate share of the net OPEB liability of the associated pension plans. As a result of implementing this standard, the State is reporting a net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB. This implementation also had the effect of restating net position at June 30, 2017. The State reported OPEB liabilities of \$2.55 billion as of June 30, 2018. This liability amount was a nine percent increase from the restated amount for fiscal year 2017.

For more information related to pensions and OPEB see NOTES 2, 9, 14, 15, and 18.

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 2018 and 2017, as restated, follows.

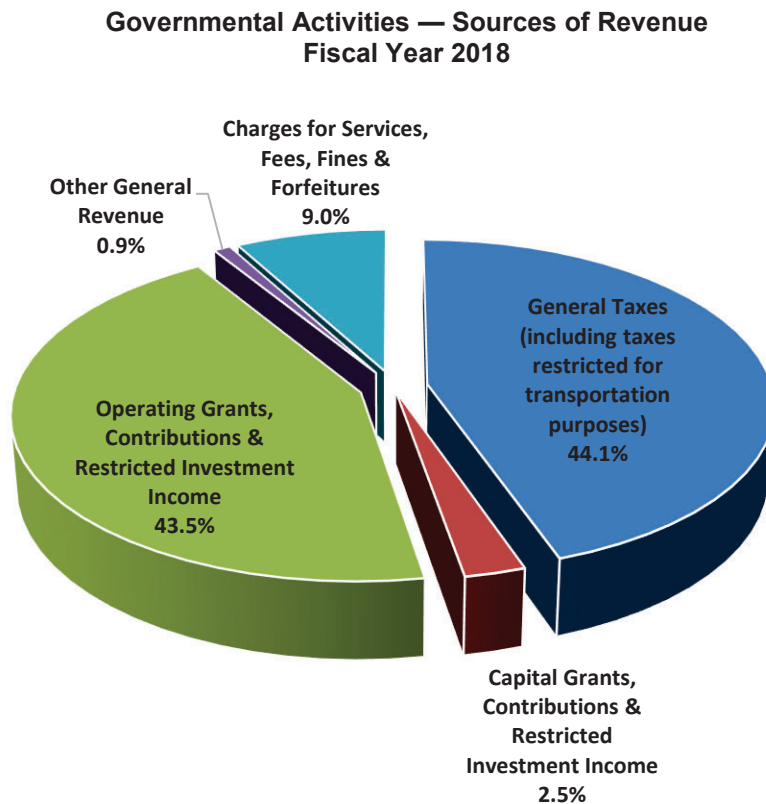
Changes in Net Position For the Fiscal Years Ended June 30, 2018 and 2017 <i>(dollars in thousands)</i>						
	Fiscal Year 2018			Fiscal Year 2017 (as restated)		
	Gov- ern- men- tal Acti- vities	Busi- ness- Type Acti- vities	Total Primary Government	Gov- ern- men- tal Acti- vities	Busi- ness- Type Acti- vities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	\$ 5,229,708	\$ 6,633,679	\$ 11,863,387	\$ 4,556,648	\$ 6,854,130	\$ 11,410,778
Operating Grants, Contributions and Restricted Investment Income/ (loss).....	25,162,423	1,402,895	26,565,318	25,070,684	1,959,320	27,030,004
Capital Grants, Contributions and Restricted Investment Income/ (loss).....	1,424,697	-	1,424,697	1,442,906	-	1,442,906
Total Program Revenues.....	31,816,828	8,036,574	39,853,402	31,070,238	8,813,450	39,883,688
General Revenues:						
General Taxes.....	23,640,505	-	23,640,505	23,578,863	-	23,578,863
Taxes Restricted for Transportation.....	1,891,116	-	1,891,116	1,952,512	-	1,952,512
Tobacco Settlement.....	352,355	-	352,355	350,378	-	350,378
Escheat Property.....	158,770	-	158,770	159,585	-	159,585
Unrestricted Investment Income.....	24,741	15	24,756	2,975	12	2,987
Other.....	17	-	17	30	-	30
Total General Revenues.....	26,067,504	15	26,067,519	26,044,343	12	26,044,355
Total Revenue.....	57,884,332	8,036,589	65,920,921	57,114,581	8,813,462	65,928,043
Expenses:						
Primary, Secondary and Other Education.....	13,244,868	-	13,244,868	13,274,840	-	13,274,840
Higher Education Support.....	2,771,493	-	2,771,493	2,760,035	-	2,760,035
Public Assistance and Medicaid.....	30,454,468	-	30,454,468	30,086,505	-	30,086,505
Health and Human Services.....	1,744,243	-	1,744,243	1,869,222	-	1,869,222
Justice and Public Protection.....	3,670,780	-	3,670,780	5,132,155	-	5,132,155
Environmental Protection and Natural Resources.....	567,788	-	567,788	687,767	-	687,767
Transportation.....	2,598,688	-	2,598,688	3,073,435	-	3,073,435
General Government.....	951,063	-	951,063	1,179,392	-	1,179,392
Community and Economic Development.....	3,458,487	-	3,458,487	3,296,366	-	3,296,366
Interest on Long-term Debt (excludes interest charged as program expense).....	97,799	-	97,799	94,290	-	94,290
Workers' Compensation.....	-	2,227,977	2,227,977	-	2,522,500	2,522,500
Lottery Commission.....	-	3,022,690	3,022,690	-	2,899,052	2,899,052
Unemployment Compensation.....	-	929,460	929,460	-	985,624	985,624
Tuition Trust Authority.....	-	57,115	57,115	-	64,942	64,942
Office of Auditor of State.....	-	81,574	81,574	-	126,726	126,726
Total Expenses.....	59,559,677	6,318,816	65,878,493	61,454,007	6,598,844	68,052,851
Surplus/ (Deficiency) Before Gains (Losses) and Transfers.....	(1,675,345)	1,717,773	42,428	(4,339,426)	2,214,618	(2,124,808)
Gain (Loss) on Extinguishment of Debt.....	-	-	-	-	4,085	4,085
Transfers - Internal Activities.....	1,168,236	(1,168,236)	-	1,031,738	(1,031,738)	-
Change In Net Position.....	(507,109)	549,537	42,428	(3,307,688)	1,186,965	(2,120,723)
Net Position, July 1 (as restated).....	16,640,039	10,568,666	27,208,705	19,947,727	9,381,701	29,329,428
Net Position, June 30.....	\$ 16,132,930	\$ 11,118,203	\$ 27,251,133	\$ 16,640,039	\$ 10,568,666	\$ 27,208,705

Governmental Activities

Expenses exceeded revenues during fiscal year 2018 for governmental activities. Revenues of \$57.88 billion for fiscal year 2018 were \$769.8 million higher than those reported for fiscal year 2017. General taxes (including taxes restricted for transportation purposes) comprised 44.1 percent of fiscal year 2018 total revenues and increased by a minimal percentage over the prior fiscal year. Operating grants, contributions and restricted investment income, making up 43.5 percent of total revenues, increased by 0.4 percent compared to fiscal year 2017. Fiscal year 2018 net transfers-in of \$1.17 billion reflect an increase of 13.2 percent from fiscal year 2017.

Expenses in the table on the previous page reflect GASB 75 OPEB restatement amounts for presentational and comparative purposes. This table shows a \$1.89 billion or 3.1 percent decrease compared to fiscal year 2017 expense, as restated. The \$2.34 billion OPEB restatement is spread across the expense functions with Justice and Public Protection absorbing 53.3 percent. Fiscal year 2018 expenses as compared to actual operations for fiscal year 2017 increased approximately \$448.1 million or a modest 0.8 percent, primarily in Medicaid spending.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2018.



Total FY 18 Revenue for Governmental Activities = \$57.88 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, 2018, with comparative numbers from June 30, 2017, as restated. 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, 2018 and 2017

(dollars in thousands)

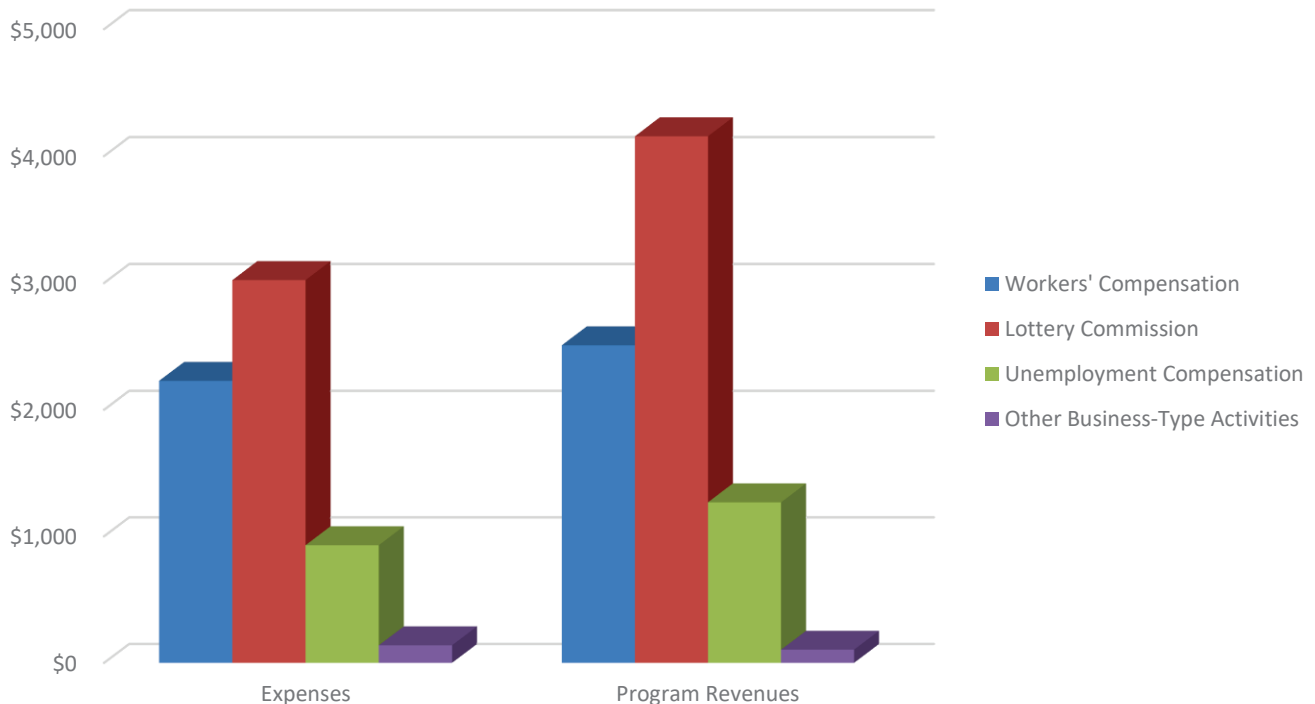
Program	Program Expenses	Percent of Total Expense	Net Cost of Program		Net Cost as Percentage of Total Expenses for Program		Net Cost as Percentage of Total Expenses — All Programs	
			2018	2017 (as restated)	2018	2017 (as restated)	2018	2017 (as restated)
Primary, Secondary and								
Other Education.....	\$ 13,244,868	22.2%	\$ 11,329,509	\$11,291,997	85.5%	85.1%	19.0%	18.4%
Higher Education Support.....	2,771,493	4.7%	2,742,360	2,731,262	98.9%	99.0%	4.6%	4.4%
Public Assistance and Medicaid.....	30,454,468	51.0%	6,137,025	6,801,981	20.2%	22.6%	10.3%	11.1%
Health and Human Services.....	1,744,243	2.9%	718,928	882,766	41.2%	47.2%	1.2%	1.4%
Justice and Public Protection.....	3,670,780	6.2%	2,321,432	3,796,327	63.2%	74.0%	3.9%	6.2%
Environmental Protection								
and Natural Resources.....	567,788	1.0%	213,817	380,025	37.7%	55.3%	0.4%	0.6%
Transportation.....	2,598,688	4.4%	965,423	1,321,488	37.2%	43.0%	1.6%	2.1%
General Government.....	951,063	1.6%	386,981	592,452	40.7%	50.2%	0.6%	1.0%
Community and								
Economic Development.....	3,458,487	5.8%	2,829,575	2,491,181	81.8%	75.6%	4.8%	4.0%
Interest on Long-Term Debt.....	97,799	0.2%	97,799	94,290	100.0%	100.0%	0.2%	0.2%
Total Governmental Activities.....	<u>\$ 59,559,677</u>	<u>100.0%</u>	<u>\$ 27,742,849</u>	<u>\$ 30,383,769</u>	<u>46.6%</u>	<u>49.4%</u>	<u>46.6%</u>	<u>49.4%</u>

Business-Type Activities

The State's enterprise funds reported net position of \$11.12 billion, as of June 30, 2018, compared to \$10.57 billion, as of June 30, 2017, after prior year restatements, an increase of \$549.5 million, or 5.2 percent. The Unemployment Compensation Fund reported a \$330.1 million increase in net position during fiscal year 2018 primarily due to a decline in Ohio's unemployment rate and a corresponding 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 2018
(dollars in millions)



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, 2018 and June 30, 2017 (dollars in thousands).

As of and for the Fiscal Year Ended June 30, 2018				
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit).....	\$ 667,887	\$ (1,937)	\$ -	\$ 665,950
Total Fund Balance.....	5,497,549	4,788,937	3,782,356	14,068,842
Total Revenues.....	35,500,831	13,636,302	8,678,181	57,815,314
Total Expenditures.....	34,908,401	13,522,695	12,525,041	60,956,137

As of and for the Fiscal Year Ended June 30, 2017				
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit).....	\$ 239,478	\$ (1,318)	\$ -	\$ 238,160
Total Fund Balance.....	5,388,605	5,041,980	3,412,270	13,842,855
Total Revenues.....	37,306,374	10,356,340	9,296,313	56,959,027
Total Expenditures.....	36,730,447	10,366,646	12,772,716	59,869,809

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2018, General Fund revenue decreased by \$1.81 billion and expenditures decreased by \$1.82 billion. The decreases are primarily the result of shifts of Federal Government revenue and related Medicaid expenditures from the General Fund to the Job, Family and Other Human Services Fund. Additionally, in early fiscal year 2018, the sales tax on Medicaid managed care organizations that was reported in the General Fund was replaced with a franchise fee on all health insuring corporation plans that is reported in the Job, Family and Other Human Services Fund.

Income tax and licenses, permits and fees revenue collectively increased \$866.8 million or 9.9 percent over the prior year, contributing to the fiscal year 2018 fund balance increase of \$108.2 million (exclusive of a \$733 thousand increase in inventories) or two percent. The State's healthy Budget Stabilization Fund (BSF) balance of over \$2.03 billion is included within unassigned fund balance.

General Fund Budgetary Highlights

The State ended the first year of its 2018-19 biennial budget on June 30, 2018, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of \$4.93 billion. Total budgetary sources for the General Fund (including \$1.12 billion in transfers from other funds) in the amount of \$39.29 billion were below final estimates by \$557.9 million or 1.4 percent during fiscal year 2018. The majority of this shortfall was the result of lower federal revenue related to lower than estimated General Revenue Fund (GRF) Medicaid spending and lower than expected transfers from other funds. Total tax receipts were above final estimates by \$574.2 million or 2.4 percent primarily due to higher than expected income and sales tax receipts.

Total budgetary uses for the General Fund (including \$1.2 billion in transfers to other funds) in the amount of \$39.76 billion were below final estimates by \$2.67 billion or 6.3 percent for fiscal year 2018. The majority of lower than appropriated spending came from economic development programs, Medicaid, and higher education. There was no budget stabilization designation at June 30, 2017, for use in balancing the final fiscal year 2018 budget.

The main appropriations act (Act) for the 2018-19 biennium for the 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, 2017. Reflecting a stated continuing focus on job creation and based on a conservative economic forecast, the Act provides for GRF appropriations of approximately \$32.2 billion in fiscal year 2018, a 6.7 percent decrease from fiscal year 2017 expenditures, and approximately \$33.3 billion in fiscal year 2019, a 3.5 percent increase from fiscal year 2018 appropriations.

GRF appropriations for major program categories in fiscal years 2018, relative to 2017 actual spending, and 2019, relative to 2018 appropriations, reflect the following changes: 15 percent decrease in Medicaid in fiscal year 2018 (largely due to shifting funding from the GRF to non-GRF sources) and 5.7 percent increase in fiscal year 2019;

increases of 1.5 percent in fiscal year 2018 and 1.6 percent in fiscal year 2019 for primary and secondary education; a 0.5 percent increase in fiscal year 2018 and 0.3 percent decrease in fiscal year 2019 for higher education; 0.9 percent decrease in fiscal year 2018 (driven by shift in funding certain Medicaid expenditures to the Medicaid program category) and 2.1 percent increase in fiscal year 2019 for mental health and developmental disabilities; and increases of 4.2 percent in fiscal year 2018 and 1.6 percent in fiscal year 2019 for corrections and youth services.

The Act reflects tax law changes that were projected to increase GRF revenues by approximately \$12.8 million in fiscal year 2018 and decrease revenues by approximately \$30.8 million in fiscal year 2019. These items include a reduction in the number of personal income tax brackets from nine to seven in tax year 2017, completely exempts the first \$10.5 thousand of taxable income for certain low-income taxpayers and increases the State personal income tax deduction amount for contributions to college savings and care for disabled individuals accounts. Also reflected in the 2018-19 Act are potentially non-recurring transfers to the GRF of \$84.5 million from non-GRF funds, \$200 million from unclaimed funds, \$31 million from the sale of prison farmland, and \$20 million from a tax amnesty program.

The 2018-19 Act also modifies certain components of the school funding formula to better distribute resources to districts with less capacity to raise revenues locally and limits increases in tuition and fees for two- and four-year higher education institutions. In addition, the newly created health insuring corporation provider assessment, which deposits revenue in a non-GRF fund, will replace the previous GRF sales tax, a revenue loss to GRF of approximately \$600 million in each of fiscal years 2018 and 2019.

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 2018 with a GRF cash balance of \$1.22 billion and a GRF budgetary fund balance of \$849.9 million. In addition to meeting the State's statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2018 GRF revenues, the State transferred \$657.5 million into the Budget Stabilization Fund (BSF) and \$30 million into the Medicaid Local Sales Tax Transition Fund in early fiscal year 2019.

Other Major Governmental Funds

The *Job, Family and Other Human Services Fund* had a fund balance of \$273.5 million at June 30, 2018, a decrease of \$158.6 million, or 36.7 percent, compared to fiscal year 2017. During fiscal year 2018, licenses, permits and fees revenue increased \$850.6 million, primarily due to implementing the new franchise fee on all health insuring corporation plans. Increases of \$2.32 billion in Federal Government revenue and \$3.15 billion in Public Assistance and Medicaid expenditures primarily relate to the shift from the General Fund, as previously discussed (see General Fund section on page 12). Contributing to the decrease in fund balance was a \$313.7 million increase in transfers-out of cash.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2018, totaled approximately \$4.52 billion dollars, a decrease of \$94.5 million or two percent since June 30, 2017. Tobacco Settlement Receipts increased \$61.6 million over the prior year. Debt Service expenditures increased by \$3.6 million during fiscal year 2018 as a result of scheduled principal and interest payments on outstanding bonds. Overall expenditures exceeded revenues resulting in a net decrease in fund balance.

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 increased \$272.1 million to \$9.93 billion at June 30, 2018, after prior year restatements. During the fiscal year, benefits and claims expense decreased \$395.3 million, or 33 percent. The healthy beginning net position and the decrease in overall expense primarily offset the decreases in premium and assessment income and investment income resulting in a 2.8 percent increase in net position.

For fiscal year 2018, the *Lottery Commission Fund* reported \$1.13 billion in net income before transfers of approximately \$1.17 billion to the Lottery Profits Education Fund. Net position at June 30, 2018, in the amount of \$186.2 million, decreased 17.7 percent from 2017, after considering prior year restatements. This decrease was largely attributable to increased expenses, including an increase of \$88.6 million in prizes expense, and a \$130.3 million increase in transfers-out. Partly offsetting the increases in expenses and transfers-out was a \$219 million in-

crease in charges for sales and services revenue, which was primarily due to increases in traditional, online, and instant ticket sales.

The \$330.1 million increase in net position in the *Unemployment Compensation Fund* is primarily due to a decline in the unemployment rate. The unemployment rate in Ohio dropped from an average of five percent in fiscal year 2017 to an average of 4.7 percent in fiscal year 2018. The decrease in the unemployment rate caused the State's benefits and claims expense to decrease by \$54.1 million or 5.5 percent from the previous fiscal year. While the benefits and claims expense decreased, the State also received less federal assistance. During fiscal year 2018, the State received \$9.3 million of federal funding compared to \$17.4 million in fiscal year 2017 resulting in a 46.7 percent decrease.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, and June 30, 2017, the State's primary government had invested \$28.17 billion and \$27.75 billion, respectively, net of accumulated depreciation of \$4.73 billion and \$4.49 billion, respectively, in a broad range of capital assets, as detailed in the table below.

The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was 1.5 percent (a 1.6 percent increase for governmental activities and a 9.3 percent decrease for business-type activities). Depreciation expense decreased 9.1 percent for governmental activities and increased 16.8 percent for business-type activities.

The State completed construction on a variety of projects at various state facilities during fiscal year 2018 totaling approximately \$315.6 million, as compared with \$200.6 million in the previous fiscal year. As further detailed in the notes to the financial statements (NOTE 20D), the State had \$431.4 million in major construction commitments (unrelated to infrastructure), as of June 30, 2018, as compared with \$323.9 million for 2017.

Capital Assets, Net of Accumulated Depreciation						
As of June 30, 2018 and 2017						
(dollars in thousands)						
	As of June 30, 2018			As of June 30, 2017		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 2,432,987	\$ 9,466	\$ 2,442,453	\$ 2,391,230	\$ 9,466	\$ 2,400,696
Buildings	1,562,728	22,048	1,584,776	1,486,323	28,983	1,515,306
Land Improvements	169,767	-	169,767	172,947	-	172,947
Machinery and Equipment	351,535	35,601	387,136	426,855	34,133	460,988
Vehicles	202,771	1,816	204,587	195,571	1,917	197,488
Infrastructure:						
Highway Network:						
General Subsystem	8,661,898	-	8,661,898	8,647,678	-	8,647,678
Priority Subsystem	8,724,307	-	8,724,307	8,657,803	-	8,657,803
Bridge Network	2,836,116	-	2,836,116	2,798,045	-	2,798,045
Parks, Recreation, and						
Natural Resources System	103,930	-	103,930	108,426	-	108,426
	25,046,039	68,931	25,114,970	24,884,878	74,499	24,959,377
Construction-in-Progress	2,959,550	96,598	3,056,148	2,682,358	108,016	2,790,374
Total Capital Assets, Net	\$ 28,005,589	\$ 165,529	\$ 28,171,118	\$ 27,567,236	\$ 182,515	\$ 27,749,751

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 43,336 lane miles of highway and ap-

proximately 107.4 million square feet of deck area that comprises 14,305 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 2018, indicates that 3.1 percent and 1.4 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. Comparatively, 2.1 percent and 0.8 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating in fiscal year 2017.

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 2018, indicates that only 1.7 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions. In comparison, fiscal year 2017 had 1.9 percent of the number of square feet of bridge deck area considered to be in "fair" and "poor" conditions.

Fiscal year 2018 total actual maintenance and preservation costs for the pavement network were \$909.6 million, compared to estimated costs of \$751.3 million, while total actual maintenance and preservation costs for the bridge network was \$452.3 million, \$10.5 million below estimate. In the previous fiscal year, total actual maintenance and preservation costs for the pavement network were \$918.8 million, compared to estimated costs of \$730.7 million, while total actual maintenance and preservation costs for the bridge network was \$526 million, \$56.2 million above 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 Infrastructure section of this report.

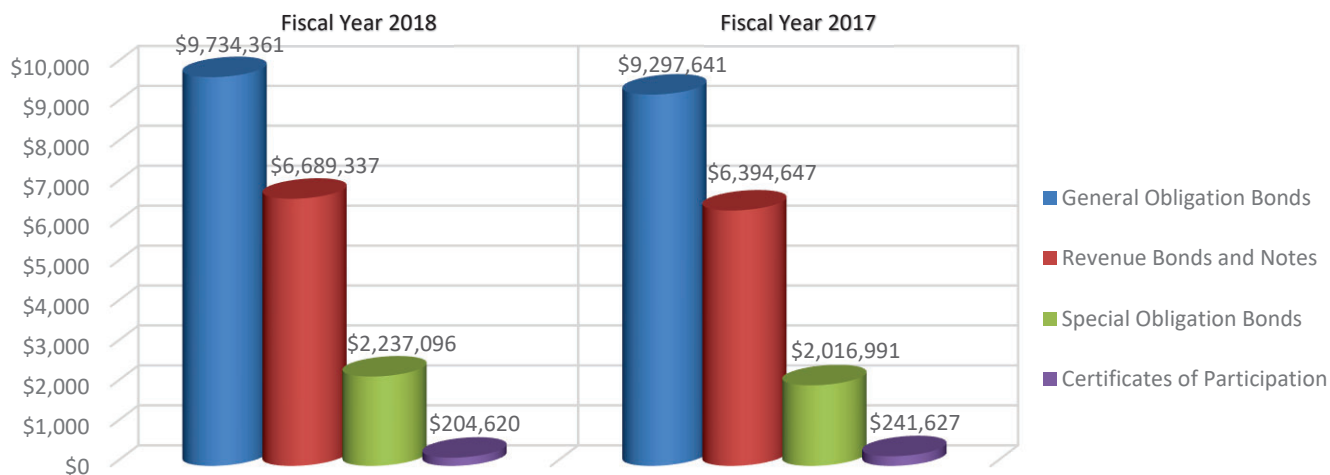
Debt — Bonds and Notes Payable and Certificates of Participation Obligations

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 pay base rent (subject to appropriation) that approximates interest and principal payments made by trustees to certificate holders.

During fiscal year 2018, the State issued a par amount of \$1.8 billion in general obligation bonds, \$370 million in revenue bonds, and \$522.9 million in special obligation bonds. Of the general obligation bonds and special obligation bonds issued, \$627.1 million and \$121.4 million, respectively, were refunding bonds. The total increase in the State's debt for the current fiscal year, based on carrying amount, was 5.1 percent, all in governmental activities.

As of June 30, 2018, and June 30, 2017, the State had total debt, all in governmental activities, of approximately \$18.87 billion and \$17.95 billion, respectively, as shown in the chart below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2018 and 2017
(dollars in thousands)



Credit Ratings

Both the State's general and special obligation bonds carry a "stable" credit outlook from all three credit 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, 2018					
Bonds and Notes	Issuer	Fitch Inc.	Moody's Investor Services, Inc.	S & P Global 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
Third Frontier Research and 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:					
Major New State Infrastructure.....	Treasurer of State	N/A	Aa2	AA	Federal Transportation Grants
Tobacco Settlement Asset-Backed...	Buckeye Tobacco Settlement Financing Authority	N/A	Caa3 to B3	B-	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	Highway User Receipts

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. 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 2018, leading economic indicators remain consistent with uninterrupted growth into the next year. The Ohio unemployment rate in October 2018 was 4.6 percent. From October 2017 to October 2018, Ohio's nonfarm payroll employment increased by approximately 115 thousand jobs.

Nationally, real gross domestic product (GDP) expanded at an annual rate of 3.5 percent in the third quarter, down from 4.2 percent in the second quarter, but well ahead of the 2.3 percent average during this expansion. On a year-over-year basis, growth was three percent, the fastest in just over three years. Compared with a year earlier, the real GDP is approximately 0.5 percent higher.

The national labor market outlook strengthened further in October 2018, as the level of nonfarm payroll employment increased by 250 thousand jobs. The U.S. unemployment rate for October 2018 was 3.7 percent, its lowest level since December 1969.

General Revenue Fund

For fiscal year 2019, total fiscal year-to-date GRF receipts collected through October 2018 are \$84.7 million below estimates and \$431.4 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2018 are \$296.5 million below estimates for the first four months of fiscal year 2019 and \$246.3 million above expenditures for the first four months of the prior fiscal year. As of October 2018, receipts were 0.8 percent below budget estimates and disbursements were 2.3 percent below budget estimates for fiscal year 2019. Fiscal year 2019 receipts are four percent ahead of receipts for the first four months of fiscal year 2018. Disbursements for fiscal year 2019 are two percent above disbursements for the same time period of fiscal year 2018.

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 target balance for the BSF can be up to 8.5 percent of the prior fiscal year's GRF revenues. In July 2018, the Office of Budget and Management authorized a \$657.5 million deposit into the BSF, bringing the balance to a new record-high of over \$2.69 billion, the strongest reserves in State history. After the deposit, the account now holds 8.3 percent of last year's GRF revenues.

Workers' Compensation Fund

The Bureau of Workers' Compensation (BWC) has committed \$20 million in fiscal years 2019 and 2020 to continue the Safety Intervention Grant Program that awards grants for safety intervention, wellness, and drug-free programs. As part of that commitment, BWC has expanded the program and set aside \$8 million for Ohio schools and police departments and \$2 million for state agencies.

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 Contact@obm.ohio.gov.