

# INTRODUCTORY SECTION



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Mike DeWine, Governor  
Jon Husted, Lt. Governor

## Office of Budget and Management

Kimberly Murnieks, Director

December 28, 2020

The Honorable Mike DeWine, Governor of Ohio;  
The Honorable Jon Husted, Lieutenant Governor of Ohio;  
Members of the General Assembly;  
Agencies, Boards, Commissions;  
And fellow Citizens:

It is my privilege to present the State of Ohio's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2020, prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

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

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

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

## **INDEPENDENT AUDIT RESULTS**

In compliance with the Ohio Revised Code, an annual financial audit has been performed by the Office of the Auditor of State. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The auditor's opinion is included in the Financial Section of this report. This opinion indicates a qualification on Business-Type Activities and the Unemployment Compensation Fund related to a new benefits system. The unmodified section of the opinion indicates all other financial statements present fairly, in all material respects, in accordance with GAAP.

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

## **PROFILE OF THE GOVERNMENT**

### *History*

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

### *Governmental Structure*

The executive branch consists of the Governor and Lieutenant Governor, who are jointly elected, and four additional statewide elected officials: Attorney General, Auditor of State, Secretary of State, and Treasurer of State. Each of these officials are elected to four-year terms.

Approximately 100 agencies, boards, and commissions are part of the executive branch of government and receive appropriations from the legislature, along with several judicial and legislative agencies. An organizational chart of state government can be found on pages x and xi.

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

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

### *Reporting Entity and Its Services*

For financial reporting purposes, the state's reporting entity consists of (1) the primary government, (2) component units for which the primary government is financially accountable, and (3) other component units for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria set forth in Governmental Accounting Standards Board's (GASB) Statement 14, the Financial Reporting Entity

Statement 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB 14, Statement 61, the Financial Reporting Entity: Omnibus, an amendment of GASB 14 and Statement 80, Blending Requirements for Certain Component Units, an amendment of GASB 14, are used to determine the organizations for which the state is financially accountable. NOTE 1A to the financial statements explains more fully which financial activities are included in the state's reporting entity.

The state provides a wide range of services and support to its citizenry that are accounted for in the following functions or programs: primary, secondary and other education, higher education support, public assistance and Medicaid, health and human services, justice and public protection, environmental protection and natural resources, transportation, general government, community and economic development, workers' compensation, lottery, unemployment compensation, tuition credits, and other business-type activities.

#### *Retirement Systems*

Employees of the primary government or its component units may be eligible to participate in the Ohio Public Employees Retirement System, State Teachers Retirement System of Ohio, State Highway Patrol Retirement System, or an alternative retirement plan. Further information on the state's participation in the different retirement systems can be found in NOTE 9 to the financial statements.

#### *Risk Management*

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

#### *Budgetary Control and Accounting System*

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

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

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

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

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

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

## **ECONOMIC OVERVIEW AND OUTLOOK**

### The Economy in 2020

All indicators show that fiscal year 2020 brought two drastically different economies for both the nation and Ohio. Between July 2019 and February 2020, the moderate growth seen in recent years continued. However, with the onset of the global coronavirus pandemic in March, the historic economic expansion that began in the middle of 2009, ended abruptly.

According to the Bureau of Economic Analysis, Real Gross Domestic Product (GDP) grew at a seasonally adjusted annual rate of 2.6 percent and 2.4 percent in the first two quarters of the fiscal year. Growth in the first half of the fiscal year reflected positive contributions from personal consumption, federal government spending, state and local government investment, and residential investment. National GDP fell 5.0 percent in the third quarter of fiscal year 2020, and an additional 31.4 percent in the final quarter of the fiscal year. These decreases in GDP reflected negative contributions in personal consumption, exports, private inventory investment that were partially offset by federal government spending.

Ohio's GDP followed a similar pattern. The first two quarters of the fiscal year showed measured growth with the seasonally adjusted state GDP growing by 1.7 percent and 1.6 percent. The increases in the first half of the fiscal year reflected positive contributions in non-durable goods manufacturing and government spending. The modest growth reversed in the third quarter of the fiscal year, decreasing 5.5 percent in the third quarter and then falling 33.0 percent in the fourth quarter. The decreases in the second half of the fiscal year reflected negative contributions in durable goods manufacturing, health care and social assistance, and accommodation and food services.

For the first eight months of the fiscal year the average unemployment rate was 4.1 percent. The pandemic drove the unemployment rate to 5.8 percent in March and 17.6 percent in April. As the economy began to reopen, people were called back to work, the unemployment rate reduced further, and by June 2020, was down to 11.0 percent, just below the high of the Great Recession, and as of October 2020, is down to 5.6 percent.

Despite the dramatic changes in unemployment, Ohio personal income increased at an annual rate of 10.8 percent during fiscal year 2020. In comparison, personal income increased at an annual rate of 10.4 percent across the country. This growth at both the national level and in Ohio was largely spurred by federal transfer payments (e.g., the \$1,200 stimulus payments and

additional \$600 per week in unemployment insurance benefits) in the final quarter of the fiscal year, which balanced lost wage and salary disbursements.

Nationally, real disposable personal income was higher in the third quarter of fiscal year 2020 than any prior quarter in history. In the first eight months of the fiscal year, the personal savings rate averaged 7.4 percent. From March through June, the savings rate averaged 22.6 percent. This was a 204.0 percent increase between the first eight months of the fiscal year and the following four months, which was largely due to the distribution of federal stimulus payments.

Real personal consumption grew at a 0.9 percent seasonally adjusted annual rate during the first eight months of the fiscal year. Then consumption plummeted at a 17.9 percent annualized rate between February and April. However, due to strong spending between April and June, consumption grew at a 15.0 percent annual rate during the last few months of the fiscal year. Despite the strong growth in the end of fiscal year personal consumption declined 4.6 percent during the fiscal year.

#### Ohio's Economic Outlook

The economy continued to improve during the first quarter of fiscal year 2021. Moody's Analytics and CNN created the "Back-to-Normal" Index to track the economic recovery. As of November 25, the national index was at 82.4 percent, while Ohio's index was three percentage points ahead at, 85.4 percent. Consumer spending has returned to near normal and Ohio's unemployment rate in October 2020 was down to 5.6 percent, just 1.5 percentage points above February's pre-pandemic lows.

The U.S. economy is likely headed towards a prolonged recovery amidst the continued spread of the coronavirus. The November 2020 Wall Street Journal of Economists reported that more than half of survey respondents projected that it would be 2023 before the labor market would recover to pre-pandemic levels. Likewise, IHS Markit's November 2020 forecast notes that although GDP for goods has recovered, that consumer spending on services will not regain its previous peak until mid-2023.

The recent announcement of effective vaccines for COVID-19 brings hope for an end to the pandemic. Individuals willingness to receive the vaccination will be an important factor in reaching the levels of immunity required for the economy to fully recover.

Until then, economic recovery is closely linked to Ohioans ability to reduce the spread of the disease through behavioral changes such as wearing a mask or staying socially distant.

Finally, additional federal stimulus may shorten the recovery period. Some important federal programs initiated by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, including relief for the unemployed, renters and student loan borrowers are set to expire at the end of December 2020. Renewal or extension of these programs, additional aid to small businesses, and unrestricted funds to state and local governments will aid in the economic recovery. However, the uncertainty of federal action has resulted in many economic forecasters to downgrade their expectations for the speed of the recovery.

#### Fiscal Year 2020 State Finances in Review

Ohio's fiscal year 2020 General Revenue Fund (GRF) performance can be divided into two different time periods: before the onset of the COVID-19 pandemic; and the period thereafter, when the virus began its spread, mitigation measures took effect, and Ohioans began adapting to a dramatically altered public health environment. During the first 8 months of the fiscal year,

GRF tax revenues grew by 3.1 percent over the previous year and exceeded estimate by 1.6 percent. During the remainder of the fiscal year (March-June 2020), tax revenues declined by 16.1 percent and were 16.2 percent below estimate. However, nearly one-half of the March-June decline stemmed from a postponement in income tax payment deadlines, which were extended from April 15/June 15 to July 15 (within the first month of fiscal year 2021).

For the fiscal year as a whole, GRF tax revenues declined by \$866.4 million (-3.7%) from fiscal year 2019. Furthermore, fiscal year 2020 GRF tax revenues displayed a negative variance from estimate, falling \$1,098.7 million (-4.6%) short of estimate. To reiterate, an estimated \$719 million of the shortfall emanates from the extension of the income tax due dates.

The variances for the major tax categories – non-auto sales, auto sales, personal income, and commercial activity – ranged from -9.7 percent for the personal income tax to 2.0 percent for the commercial activity tax.

	Actual FY 2020	Estimated FY 2020	Variance	Pct. Variance
Non-Auto Sales & Use	\$9,183.0	\$9,465.8	-\$282.8	-3.0%
Auto Sales & Use	\$1,502.7	\$1,548.0	-\$45.3	-2.9%
Personal Income	\$7,881.3	\$8,726.4	-\$845.1	-9.7%
Commercial Activity Tax	\$1,671.7	\$1,638.5	\$33.2	2.0%

Total (tax and non-tax) GRF receipts displayed a less negative outcome than tax sources alone, due to a significant increase in Federal grant revenue traced to substantially larger Medicaid payments. Federal grant revenue exceeded estimate by \$613.1 million (6.2%) for the year. The preponderance of the non-tax overage occurred in May and June, as the state received enhanced Federal Medical Assistance Percentage (FMAP) payments through the Families First Coronavirus Response Act. Accordingly, total fiscal year 2020 GRF revenue displayed a \$559.4 million (1.6%) negative variation from estimate.

After historically negative revenue performance during the final quarter of fiscal year 2020, tax revenues stabilized during the first quarter of fiscal year 2021. In fact, several sources – including non-auto sales tax and auto sales tax – exceeded estimates. Stronger-than-normal revenue growth during this period was not totally unanticipated, given the resurgence of economic activity during the third quarter of calendar year 2020. Even so, certain aspects of the state’s tax structure and how they interact with the economy, appear to have given the additional resonance to the state’s revenue recovery during the first three months of fiscal year 2021. Most notably, there appears to have been a substantial shift in consumer spending that is relatively well-suited to the sales tax. As in most states, Ohio’s sales tax is more heavily reliant on purchases of goods than services. As households have reduced their consumption of services during the crisis, they have substantially increased their purchases of goods, particularly durable goods associated with enhancing their homes and domestic environments. The synergies of a recovering economy and shifts in purchases toward goods appear to be borne out by the fact that Ohio GRF sales tax revenues increased by 8.5 percent during the first quarter of fiscal year 2021.

Nonetheless, the COVID-19 crisis remains and OBM continues its vigilant monitoring and review of revenue performance and remains poised to take actions necessary to ensure a balanced budget as the biennium comes to a close.



## **AWARDS AND ACKNOWLEDGEMENTS**

### *Certificate of Achievement*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Ohio for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2019.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

### *Acknowledgments*

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

*Very respectfully yours,*



*Kimberly A. Murnieks  
Director  
Office of Budget and Management  
State of Ohio*



# STATE OF OHIO OFFICIALS

As of June 30, 2020

## EXECUTIVE

Mike DeWine  
Governor

Jon Husted  
Lieutenant Governor

Dave Yost  
Attorney General

Keith Faber  
Auditor of State

Robert Sprague  
Treasurer of State

Frank LaRose  
Secretary of State

## LEGISLATIVE

Larry Obhof  
President of the Senate

Larry Householder  
Speaker of the House

## JUDICIAL

Maureen O'Connor  
Chief Justice  
Supreme Court

# STATE OF OHIO ORGANIZATION CHART

<b>FINANCIAL REPORTING ENTITY</b>
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<b>PRIMARY GOVERNMENT</b>		
<p style="text-align: center;"><b>LEGISLATIVE</b></p> <p style="text-align: center;"><b>Senate</b> (33 Members)</p> <p style="text-align: center;"><b>House of Representatives</b> (99 Members)</p>	<p style="text-align: center;"><b>EXECUTIVE</b></p> <p style="text-align: center;"><b>Governor</b> <b>Lieutenant Governor</b> <b>Attorney General</b> <b>Auditor of State</b> <b>Secretary of State</b> <b>Treasurer of State</b> <b>State Board of Education</b> (11 Elected Members, and 8 At-Large Members)</p>	<p style="text-align: center;"><b>JUDICIAL</b></p> <p style="text-align: center;"><b>Supreme Court</b> Chief Justice and 6 Justices</p>
<p><b>Governmental Activities:</b> <i>General Government:</i> Senate House of Representatives Legislative Service Commission Legislative Committees</p>	<p><b>Governmental Activities:</b> <i>Primary, Secondary and Other Education:</i> Arts Council Broadcast Educational Media Commission Department of Education School for the Blind School for the Deaf State Library Board</p> <p><i>Higher Education Support:</i> Department of Higher Education State Board of Career Colleges and Schools</p> <p><i>Public Assistance and Medicaid:</i> Department of Job and Family Services Department of Medicaid</p> <p><i>Health and Human Services:</i> Commission on Hispanic/Latino Affairs Commission on Minority Health Department of Aging Department of Developmental Disabilities Department of Health Department of Mental Health and Addiction Services Department of Veteran Services Opportunities for Ohioans with Disabilities</p> <p><i>Justice and Public Protection:</i> Adjutant General's Department Board of Tax Appeals Civil Rights Commission Department of Public Safety Department of Rehabilitation and Correction Department of Youth Services Ethics Commission Office of the Attorney General Public Defender Commission</p> <p><i>Environmental Protection and Natural Resources:</i> Department of Natural Resources Environmental Protection Agency Environmental Review Appeals Commission Lake Erie Commission</p> <p><i>Transportation:</i> Department of Transportation</p>	<p><b>Governmental Activities:</b> <i>Justice and Public Protection:</i> Supreme Court Judicial Conference Judiciary Court of Claims</p>

**PRIMARY GOVERNMENT (Continued)**

	<p><i>General Government:</i>                  Capitol Square Review &amp; Advisory Board                  Consumers' Counsel                  Department of Administrative Services                  Department of Commerce                  Department of Insurance                  Department of Taxation                  Office of Budget and Management                  Office of the Governor                  Office of the Inspector General                  Office of the Lieutenant Governor                  Office of the Secretary of State                  Office of the Treasurer of State                  Public Utilities Commission                  Sinking Fund Commission                  State Racing Commission                  Other Boards and Commissions</p> <p><i>Community and                  Economic Development:</i>                  Department of Agriculture                  Development Services Agency                  Expositions Commission                  Public Works Commission                  Southern Ohio Agricultural &amp; Community                  Development Foundation</p> <p><b>Business-Type Activities:</b>                  Bureau of Workers' Compensation                  and Industrial Commission                  Department of Job and Family Services—                  Unemployment Compensation Program                  Lottery Commission                  Office of the Auditor of State                  Tuition Trust Authority</p>	
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**COMPONENT UNITS**

<p><b>Blended Component Units:</b>                  Buckeye Tobacco Settlement Financing Authority                  (included as Governmental Activities)</p> <p><b>Fiduciary Component Unit:</b>                  State Highway Patrol Retirement System</p> <p><b>Discretely Presented Component Units:</b>  <i>Financing Authorities and Commissions:</i>                  Ohio Air Quality Development Authority                  Ohio Capital Fund                  Ohio Facilities Construction Commission                  Ohio Turnpike and Infrastructure Commission</p> <p><i>Nonprofit Organizations:</i>                  Jobs Ohio</p>	<p><b>Discretely Presented Component Units                  (continued):</b>  <i>State Universities:</i>                  Bowling Green State University      Ohio University                  Central State University              Shawnee State University                  Cleveland State University          University of Akron                  Kent State University                  University of Cincinnati                  Miami University                          University of Toledo                  Northeast Ohio Medical University    Wright State University                  Ohio State University                  Youngstown State University</p> <p><i>State Community Colleges:</i>                  Cincinnati State                          Owens State                  Clark State                                  Southern State                  Columbus State                          Terra State                  Edison State                                Washington State                  Northwest State</p>
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**FIDUCIARY**

Star Ohio  
 Variable College Savings Plan  
 Agency Funds

**JOINT VENTURES**

Great Lakes Protection Fund  
 Local Community Colleges Technical Colleges

**RELATED ORGANIZATIONS**

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



Government Finance Officers Association

Certificate of  
Achievement  
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Reporting

Presented to

**State of Ohio**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morrill*

Executive Director/CEO