

Introductory Section



State House
Columbus, Ohio



Mike DeWine, Governor
Jon Husted, Lt. Governor

Office of Budget and Management

Kimberly Murnieks, Director

December 21, 2022

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 Ohioans:

It is my privilege to present the State of Ohio's Annual Comprehensive Financial Report (ACFR) for the year ended June 30, 2022, 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 the Office of Budget and Management (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 ACFR 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 ACFR includes more than 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 controls 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 controls are 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 cost and benefit requires estimates and judgments by management.

INDEPENDENT AUDIT RESULTS

In compliance with Ohio Revised Code, the Office of the Auditor of State performed an annual financial audit. 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. Included in the Financial Section of this report is the auditor's unmodified opinion. This opinion indicates there was no limitation on the scope of the auditors' examination and the financial statements were presented fairly, in all material respects, in accordance with GAAP.

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

Noteworthy this year is that Fitch Ratings upgraded Ohio's long-term Issuer Default Rating (IDR) to "AAA" for the first time since they began rating Ohio's credit. Additionally, Moody's Investors Service elevated Ohio's credit outlook to "Positive" and affirmed the state's "Aa1" Issuer rating. Ohio also received Honorable Mention in Results for America's 2022 Invest in What Works State Standard of Excellence. This recognition demonstrates Ohio's strong commitment to using data and evidence to drive budget, policy, and management decisions.

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 Ohio 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 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 12 district courts of appeal. The Chief Justice and six justices are elected to six-year terms.

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 1R to the financial statements, the state's primary government is selfinsured 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 a balanced state budget. The state's biennial operating 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; Job, Family, and Other Human Services Special Revenue Fund; and the Pandemic Relief Special Revenue Funds; 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 ACFR.

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 ACFR as a note to the budgetary section of required supplementary information.

ECONOMIC OVERVIEW AND OUTLOOK

The Economy in 2022

Following the rapid recovery in FY 2021, the U.S. economy experienced more moderated growth in FY 2022. Concerns about the impact of inflation, geopolitical conditions, and the lingering impact of the pandemic mitigation efforts brought continued uncertainty to the country and the state.

According to the Bureau of Economic Analysis, national real gross domestic product (GDP) grew at a seasonally adjusted rate of 2.3 percent in the first quarter of FY 2022. Growth then increased in the second quarter to 6.9 percent before contracting in the third and fourth quarter of the fiscal year, at 1.6 percent and 0.6 percent, respectively. Following the national trend for FY 2022, Ohio experienced growth in the first two quarters of the fiscal year before contracting in the second half of the year. In the third and fourth quarters of the year, Ohio's seasonally adjusted GDP decreased by 1.8 percent and 1.1 percent, respectively. Reductions in production across multiple sectors including manufacturing of nondurable goods, retail trade, and finance and insurance led to the decreases throughout the second half of the fiscal year.

In Ohio and across the country, employers reported difficulties filling vacancies in FY 2022. Ohio's unemployment rate declined throughout FY 2022. According to the Bureau of Labor Statistics, in

July 2021, the seasonally adjusted unemployment rate was 5.1 percent. During the fourth quarter of the fiscal year, Ohio's unemployment rate fell to 3.9 percent, a level touched only two other times in Ohio's history.

Consistent with national trends, Ohio's participation in the labor force remained below January 2020 levels throughout the fiscal year. Over the course of FY 2022, Ohio's labor force participation rate averaged 61.7 percent, just below the national rate of 62.0 percent.

Current employment data and updated economic forecasts by S&P Global (formerly IHS Markit) suggest the labor force participation both nationally and in Ohio may already be in line with demographic trends. A wave of retirements was expected as the baby boomer generation began to leave the workforce. Retirements during the pandemic likely accelerated the decreases in the labor force participation rate both in Ohio and across the country. Current forecasts indicate that the lower participation rates in Ohio represent a new baseline for the state rather than evidence of a lack of post-pandemic job recovery.

As the labor market tightened and supply chain disruptions continued, inflation became an economic concern. In the first month of FY 2022, the Consumer Price Index (CPI) for all urban consumers was increasing at an annual rate of 5.4 percent. Economists and policymakers initially believed this level of inflation was a temporary response to stress on supply chains and geopolitical pressures. Following Russia's invasion of Ukraine in February 2022, energy prices increased and the prices of other commodities, including food, also increased significantly compared to FY 2021.

Wages and salaries grew both nationally and in Ohio throughout FY 2022. However, real disposable personal income decreased nationally in all quarters of FY 2022. The Surveys of Consumers and Consumer Confidence Index, two leading surveys of consumer sentiment, showed decreases in confidence throughout the year as uncertainty over future purchasing power became widespread.

By the end of the fiscal year, CPI increased to 9.1 percent, a rate of inflation not seen since the 1980s in the United States. Economists continue to debate the impact of these price fluctuations on consumers. While inflation erodes the purchasing power of wages, there has been a slight change nationally in consumer behavior. To stabilize prices and reduce the risk of entrenched inflation, the Federal Reserve began increasing the effective borrowing rate in March of 2022. Relative to rates in the last decade, which remained close to zero, these increases were significant.

Ohio's Economic Outlook

Overall, the economy in FY 2022 was resilient in the face of the inflationary conditions and geopolitical stressors on the global supply chain. Decisive monetary policy and continued focus on price stability combined with the strength of the state labor market have positioned Ohio to continue to grow on pace with national trends in FY 2023.

Ohio's outlook for FY 2023 and beyond is bright and built on a strong and increasingly diversified economic foundation. Updates to existing manufacturing hubs and investment in manufacturing of modern technologies will provide opportunities for growth throughout Ohio. Intel's investment in a new semiconductor facility, Ford's electric vehicle production expansion, and Honda's joint venture with LG Energy Solutions to manufacture batteries will create thousands of high-skill jobs in the state during the coming years.

With business costs below both Midwest and national averages, Ohio attracted investments from firms in other sectors as well. Amazon and J.P. Morgan Chase, already significant employers in the state, plan to expand operations in Ohio. With an increasing percentage of the population holding bachelor's degrees or higher, Ohio's labor force is competitive across a broad base of industries. Internationally, uncertainty and inflation have darkened expectations for FY 2023, but Ohio is well-positioned economically to navigate these challenges and move toward a more prosperous future.

FY 2022 State Finances in Review

Ohio General Revenue Fund (GRF) finances in FY 2022 resonated with strong tax revenue performance and deliberately managed spending practices. Even as the economy adjusted to the tapering effects of federal pandemic fiscal relief, FY 2022 witnessed a strengthening labor market that supported wage and personal consumption growth. These forces, as well as income tax collections from non-wage income sources, were prime drivers of the year's revenue gains.

For the fiscal year, GRF tax revenues increased by \$1,685.6 million (6.4%) from FY 2021. Such growth was exceptionally vibrant once a one-time shift of \$719 million in income tax revenue into FY 2021 (from 2020) is considered and the effects of a \$1,053 million tax cut in FY 2022 are considered. Growth rates for all major tax sources during the year ranged from very respectable to highly elevated: relative to the prior year, FY 2022 receipts increased by 5.0 percent, 5.4 percent, 7.5 percent, and 19.7 percent for the auto sales tax, personal income tax, non-auto sales tax, and commercial activity tax, respectively.

FY 2022 GRF tax revenues produced a substantial positive variance from estimate, exceeding anticipated levels by \$2,738.4 million (10.8%). The positive variances for the major tax categories – non-auto sales, auto sales, personal income, and commercial activity – ranged from 4.8 percent for the auto sales tax to 20.8 percent for the personal income tax.

	Actual FY 2022	Estimated FY 2022	Variance	Percent Variance
Non-Auto Sales & Use	\$ 1,080.6	\$ 10,454.7	\$ 625.9	6.0%
Auto Sales & Use	\$ 1,949.0	\$ 1,860.1	\$ 88.9	4.8%
Personal Income	\$ 10,782.2	\$ 8,899.2	\$ 1,853.0	20.8%
Commercial Activity Tax	\$ 1,995.5	\$ 1,799.4	\$ 196.1	10.9%

Total tax and non-tax GRF receipts, including transfers, exceeded the FY 2022 estimate by \$4,062.0 million (11.1%). Federal grant revenue was considerably above estimate for the year, totaling \$1,282.4 million (12.1%). Other non-tax sources were \$41.2 million above the estimate.

FY 2022 revenue performance picked up momentum as the year proceeded. GRF tax revenues exceeded their estimates by a combined \$336.7 million over the first five months of the year. In comparison, the total variance during the four following months (December 2021 through March 2022) was \$1,067.9 million. Finally, April's results far exceeded any month of the year: revenue was \$1,048.8 million above expectations, largely due to historically strong annual tax return receipts.

FY 2022 disbursements ended \$580.4 million above estimates produced at the beginning of the fiscal year. This variance was primarily attributable to two factors: mid-year appropriation adjustments authorized by the General Assembly in Amended Substitute House Bill 169, and the

continuation of the federal public health emergency accompanied by enhanced Federal Medical Assistance Percentage (eFMAP). As a result of these actions, the Department of Medicaid was \$1,123.1 million above estimate.

Revenues continued to exceed expectations through the first quarter of FY 2023. Total GRF tax revenues were \$238.2 million (3.6%) above estimate through September. Income tax accounts for much of the year-to-date performance. The revenue performance demonstrated through the first quarter of FY 2023 and the modest tax revenue growth assumptions across the remainder of the fiscal year provide a solid foundation for attaining anticipated revenue levels during the entire year. That said, OBM continues vigilant monitoring of revenue performance, poised to take actions necessary to ensure a balanced budget.

ACKNOWLEDGEMENTS

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 Annual Comprehensive Financial Report at obm.ohio.gov.

Very respectfully yours,



Kimberly A. Murnieks
Director

STATE OF OHIO OFFICIALS

As of June 30, 2022

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

Matt Huffman
President of the Senate

Robert Cupp
Speaker of the House

JUDICIAL

Maureen O'Connor
Chief Justice
Supreme Court

STATE OF OHIO ORGANIZATION CHART

FINANCIAL REPORTING ENTITY

PRIMARY GOVERNMENT		
<p>LEGISLATIVE</p> <p>Senate (33 Members)</p> <p>House of Representatives (99 Members)</p>	<p>EXECUTIVE</p> <p>Governor Lieutenant Governor Attorney General Auditor of State Secretary of State Treasurer of State State Board of Education (11 Elected Members, and 8 At-Large Members)</p>	<p>JUDICIAL</p> <p>Supreme Court Chief Justice and 6 Justices</p>
<p>Governmental Activities: <i>General Government:</i> Senate House of Representatives Legislative Service Commission Legislative Committees</p>	<p>Governmental Activities: <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>Governmental Activities: <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 & 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 Department of Development Expositions Commission Public Works Commission</p> <p>Business-Type Activities: Bureau of Workers' Compensation and Industrial Commission Department of Job and Family Services— Unemployment Compensation Program Lottery Commission Office of the Auditor of State Tuition Trust Authority</p>	

COMPONENT UNITS		
<p>Blended Component Units: Buckeye Tobacco Settlement Financing Authority (included as Governmental Activities)</p> <p>Fiduciary Component Unit: State Highway Patrol Retirement System</p> <p>Discretely Presented Component Units: <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>Discretely Presented Component Units (continued): <i>State Universities:</i> Bowling Green State University Central State University Cleveland State University Kent State University Miami University Northeast Ohio Medical University Ohio State University</p> <p><i>State Community Colleges:</i> Cincinnati State Clark State Columbus State Edison State Northwest State</p>	<p>Ohio University Shawnee State University University of Akron University of Cincinnati University of Toledo Wright State University Youngstown State University</p> <p>Owens State Southern State Terra State Washington State</p>

FIDUCIARY
STABLE Program STAR Ohio Variable College Savings Plan Custodial Funds

JOINT VENTURES	RELATED ORGANIZATIONS
Great Lakes Protection Fund Local Community Colleges Technical Colleges	Higher Educational Facility Commission Ohio Housing Finance Agency Ohio Legal Assistance Foundation Ohio Water Development Authority Petroleum Underground Storage Tank Release Compensation Board