State of Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(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, 2014. 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 2014, net position of the State's primary government increased by $3.22 billion, after prior year restatements, and ended fiscal year 2014 with a balance of $30.2 billion. Net position of the State's component units increased by $1.82 billion, after prior year restatements, and ended fiscal year 2014 with a balance of $14.7 billion. See additional discussion beginning on page 8.

Fund Financial Statements
Governmental funds reported a combined ending fund balance of $14.56 billion that was comprised of $146.8 million in nonspendable, $9.39 billion restricted for specific purposes, $1.4 billion committed, $2.37 billion in assigned, and $1.26 billion in unassigned. See additional discussion beginning on page 11.

As of June 30, 2014, the General Fund's fund balance was approximately $5.93 billion, including $69.8 million in nonspendable, $1.46 billion in restricted, $773.7 million in committed, $2.37 billion in assigned, and $1.26 billion in unassigned. The General Fund's fund balance increased by $687.7 million (exclusive of a $732 thousand increase in inventories) or 13.1 percent during fiscal year 2014. See additional discussion beginning on page 11.

Proprietary funds reported net position of $8.94 billion, as of June 30, 2014, an increase of $3.12 billion since June 30, 2013. This increase is largely due to the net increase of $2.68 billion in the Workers' 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 $25.98 billion at June 30, 2014. The majority of the $32.8 million increase during fiscal year 2014 was from the acquisition of land and highway network infrastructure. See additional discussion beginning on page 13.

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 $293 million or 1.7 percent during fiscal year 2014, considering prior year restatements, for an ending balance of $17.73 billion. During the year, the State issued, at par, $1.75 billion of long-term debt of which $407.5 million was refunding bonds and certificates of participation. See additional discussion beginning on page 14.

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

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

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

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

The two government-wide financial statements, prepared on a basis and focus similar to those used by private-sector companies, report the State's net position and how it has changed. Net position — the difference between the State's assets/deferred outflows of resources and liabilities/deferred inflows of resources — is one way to measure the State's financial health, or position. Over time, increases or decreases in the State's net position indicate whether its financial health has improved or deteriorated, respectively. However, a reader should consider additional nonfinancial factors, such as changes in the State's economic indicators and the condition of the State's highway system, when assessing the State's overall financial status.

These statements, found on pages 20 through 23 of this report, are divided into three categories as follows.

Governmental Activities — Most of the State's basic services are reported under this category, such as primary, secondary and other education, higher education support, public assistance and Medicaid, and transportation. Taxes, federal grants, and charges for services, fees, fines and forfeitures finance most of these activities.

Business-type Activities — The State charges fees to customers to help cover the costs of certain services it provides. The State reports the following programs and activities as business-type: workers' compensation insurance program, lottery operations, unemployment compensation program, guaranteed college tuition credit program, and the Auditor of State's governmental auditing and accounting services.

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

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

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The basic fund financial statements can be found on pages 24 through 45 of this report while the combining fund statements and schedules can be found on pages 135 through 203. The State has the following three kinds of funds:

Governmental Funds — Most of the State's basic services are included in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., near-term inflows and outflows of spendable resources) and the balances remaining at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps the financial statement reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. Because these statements do not encompass the long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationship (or differences) between them.

The State's governmental funds include the General Fund, Job, Family and Other Human Services Special Revenue Fund, and the Buckeye Tobacco Settlement Financing Authority Revenue Bonds Debt Service Fund, all of which are considered major funds. Data from the other governmental funds, which are classified as nonmajor funds, are combined into an aggregated presentation under a single column on the basic governmental fund financial statements. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary Funds — Services for which the State charges customers a fee are generally reported in proprietary funds. Financial statements for the proprietary funds, which are classified as enterprise funds, provide both long- and short-term financial information.

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

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

Fiduciary Funds — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. The State Highway Patrol Retirement System Pension Trust Fund, Variable College Savings Plan Private-Purpose Trust Fund, STAR Ohio Investment Trust Fund, and the agency funds are presented on two statements. Fiduciary information is excluded from the government-wide financial statements because the State cannot use these assets to finance its operations.

Discretely Presented Component Unit Statements (Component Unit)

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

Notes to the Financial Statements

The basic financial statements section includes notes that more fully explain the information in the government-wide and fund financial statements; the notes provide more detailed data that are essential to a full understanding of the data presented in the financial statements. The notes can be found on pages 50 through 128 of this report.

Required Supplementary Information

Following the notes is a section of required supplementary information that discusses the assessed condition and estimated and actual maintenance and preservation costs of the state's highway and bridge infrastructure assets that are reported using the modified approach. Limited in application to a government's infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. Required supplementary information can be found on pages 129 through 132 of this report.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Position. During fiscal year 2014, as shown in the table below, the combined net position of the State's primary government increased $3.22 billion or 11.9 percent, after prior year restatements. Net position reported for governmental activities increased approximately $100.7 million or .5 percent, compared to the restated net position on July 1, 2013 (see NOTE 2), and business-type activities increased $3.12 billion, or 53.6 percent. Condensed financial information derived from the Statement of Net Position for the primary government is presented in the following table.

Net Position
As of June 30, 2014 and 2013
(dollars in thousands)

	As of June 30, 2014			As of June 30, 2013 (as restated)		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and Other Assets	$ 19,472,327	$ 31,711,462	$ 51,183,789	$ 21,263,575	$ 29,375,395	$ 50,638,970
Capital Assets..	25,830,292	145,162	25,975,454	25,801,905	140,708	25,942,613
Total Assets..	45,302,619	31,856,624	77,159,243	47,065,480	29,516,103	76,581,583
Deferred Outflows of Resources..............	$ 4,689,267	$ -	$ 4,689,267	$ 226,275	$ -	$ 226,275
Current and Other Liabilities.......................	7,901,435	41,297	7,942,732	6,439,713	171,188	6,610,901
Noncurrent Liabilities..................................	18,623,285	22,874,605	41,497,890	19,703,042	23,523,049	43,226,091
Total Liabilities...	26,524,720	22,915,902	49,440,622	26,142,755	23,694,237	49,836,992
Deferred Inflows of Resources.................	$ 2,212,211	$ -	$ 2,212,211	$ -	$ -	$ -
Net Position:						
Net Investment in Capital Assets............	22,627,911	129,804	22,757,715	22,489,929	92,290	22,582,219
Restricted..	4,455,723	9,481,597	13,937,320	4,443,210	6,814,878	11,258,088
Unrestricted..	(5,828,679)	(670,679)	(6,499,358)	(5,784,139)	(1,085,302)	(6,869,441)
Total Net Position..................................	$ 21,254,955	$ 8,940,722	$ 30,195,677	$ 21,149,000	$ 5,821,866	$ 26,970,866

As of June 30, 2014, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was $22.76 billion. Restricted net position was approximately $13.94 billion, resulting in a $6.5 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 (BSF) balance is included within unrestricted net position.

After depositing $995.9 million into the BSF during fiscal year 2014, the State has reached its target level within the BSF for the first time in more than a decade. The balance of $1.48 billion at June 30, 2014, is equal to five percent of the preceding year's General Revenue Fund revenues. The money set aside in the BSF during good economic times will protect the State's budget from cyclical changes in revenues and expenditures should the economy become weakened unexpectedly.

The government-wide Statement of Net Position reflects a $5.83 billion deficit for unrestricted governmental activities. 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 $11.2 billion of outstanding general obligation and special obligation debt at June 30, 2014, $8.29 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.

In fiscal year 2014, the State implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* reclassifying certain items that were previously reported as assets or liabilities to deferred inflows or outflows of resources. As a result, governmental activities reported $4.69 billion of deferred outflows of resources and $2.21 billion of deferred inflows of resources as of June 30, 2014 (see NOTE 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 2014 and 2013, as restated, follows.

Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013
(dollars in thousands)

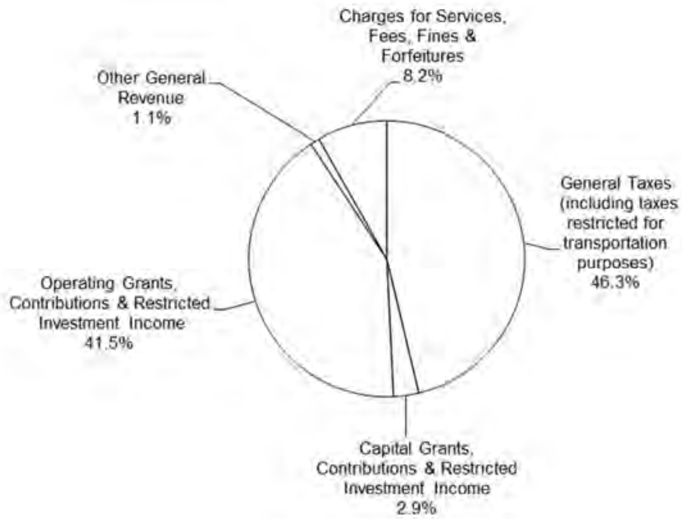
	Fiscal Year 2014			Fiscal Year 2013 (as restated)		
	Govern-mental Activities	Business-Type Activities	Total Primary Government	Govern-mental Activities	Business-Type Activities	Total Primary Government
Program Revenue:						
Charges for Services, Fees, Fines and Forfeitures	$ 4,225,067	$ 6,709,764	$ 10,934,831	$ 4,193,678	$ 6,331,737	$ 10,525,415
Operating Grants, Contributions and Restricted Investment Income/ (loss)	21,454,316	3,398,375	24,852,691	20,189,757	1,697,735	21,887,492
Capital Grants, Contributions and Restricted Investment Income/ (loss)	1,523,237	-	1,523,237	1,695,846	-	1,695,846
Total Program Revenues	27,202,620	10,108,139	37,310,759	26,079,281	8,029,472	34,108,753
General Revenues:						
General Taxes	22,126,159	-	22,126,159	22,843,622	-	22,843,622
Taxes Restricted for Transportation	1,782,437	-	1,782,437	1,774,781	-	1,774,781
Tobacco Settlement	362,472	-	362,472	336,255	-	336,255
Escheat Property	192,184	-	192,184	167,140	-	167,140
Unrestricted Investment Income	1,733	3	1,736	25,881	3	25,884
Other	839	11	850	239,435	-	239,435
Total General Revenues	24,465,824	14	24,465,838	25,387,114	3	25,387,117
Total Revenue	51,668,444	10,108,153	61,776,597	51,466,395	8,029,475	59,495,870
Expenses:						
Primary, Secondary and Other Education	12,287,325	-	12,287,325	11,461,600	-	11,461,600
Higher Education Support	2,474,851	-	2,474,851	2,403,149	-	2,403,149
Public Assistance and Medicaid	25,283,157	-	25,283,157	21,624,298	-	21,624,298
Health and Human Services	1,579,156	-	1,579,156	3,504,235	-	3,504,235
Justice and Public Protection	3,385,337	-	3,385,337	3,136,239	-	3,136,239
Environmental Protection and Natural Resources	419,539	-	419,539	437,297	-	437,297
Transportation	2,706,248	-	2,706,248	2,657,961	-	2,657,961
General Government	835,785	-	835,785	921,636	-	921,636
Community and Economic Development	3,448,735		3,448,735	3,510,004		3,510,004
Interest on Long term Debt (excludes interest charged as program expense)	103,283	-	103,283	114,859	-	114,859
Workers' Compensation	-	2,417,674	2,417,674	-	3,428,859	3,428,859
Lottery Commission	-	2,310,169	2,310,169	-	2,100,887	2,100,887
Unemployment Compensation	-	1,444,870	1,444,870	-	1,976,518	1,976,518
Tuition Trust Authority	-	72,215	72,215	-	80,560	80,560
Liquor Control	-	-	-	-	310,209	310,209
Office of Auditor of State	-	70,586	70,586	-	65,845	65,845
Total Expenses	52,523,416	6,315,514	58,838,930	49,771,278	7,962,878	57,734,156
Surplus/ (Deficiency) Before Gains (Losses) and Transfers	(854,972)	3,792,639	2,937,667	1,695,117	66,597	1,761,714
Gain (Loss) on Extinguishment of Debt	-	281,938	281,938	(154,607)	273,851	119,244
Transfers - Internal Activities	955,721	(955,721)	-	1,082,887	(1,082,887)	-
Change In Net Position	100,749	3,118,856	3,219,605	2,623,397	(742,439)	1,880,958
Net Position, July 1 (as restated)	21,154,206	5,821,866	26,976,072	18,525,603	6,564,305	25,089,908
Net Position, June 30	$ 21,254,955	$ 8,940,722	$ 30,195,677	$ 21,149,000	$ 5,821,866	$ 26,970,866

Governmental Activities

Expenses exceeded revenues during fiscal year 2014 for governmental activities. Revenues of $51.67 billion for fiscal year 2014 were $202 million higher than those reported for fiscal year 2013. General taxes (including taxes restricted for transportation purposes) comprised 46.3 percent of fiscal year 2014 total revenues and decreased by 2.9 percent compared to fiscal year 2013. Operating grants, contributions and restricted investment income, making up 41.5 percent of total revenues, increased by 6.3 percent compared to fiscal year 2013. Expenses for fiscal year 2014 increased $2.75 billion or 5.5 percent from fiscal year 2013, after restatements, as a result of additional school foundation funding and an overall increase in the Medicaid caseload and programmatic costs during fiscal year 2014. Fiscal year 2014 net transfers of $955.7 million reflect a decrease of 11.7 percent over fiscal year 2013.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2014.

Governmental Activities — Sources of Revenue
Fiscal Year 2014



Total FY 14 Revenue for Governmental Activities = $51.67 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, 2014, with comparative numbers from June 30, 2013, 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, 2014 and 2013
(dollars in thousands)

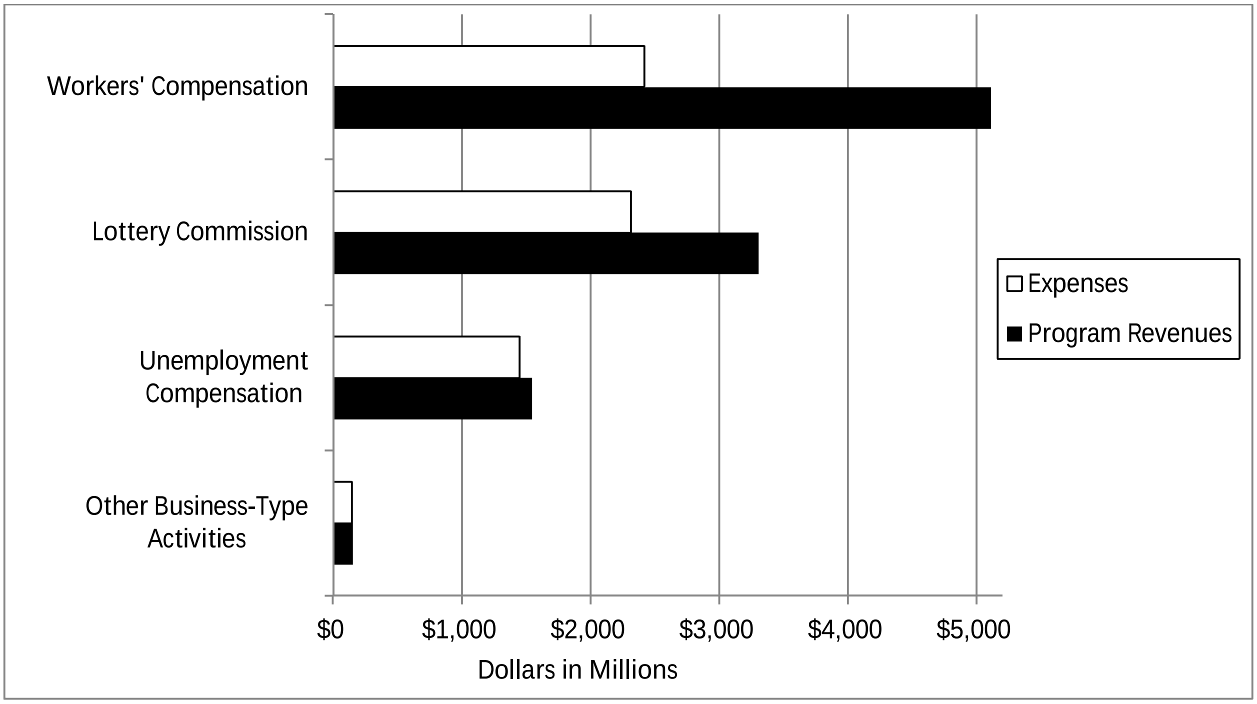
	Program Expenses	Percent of Total Expense	Net Cost of Program		Net Cost as Percentage of Total Expenses for Program		Net Cost as Percentage of Total Expenses — All Programs	
Program	**2014**	**2014**	**2014**	**2013 (as restated)**	**2014**	**2013 (as restated)**	**2014**	**2013 (as restated)**
Primary, Secondary and Other Education..........................	$ 12,287,325	23.4%	$ 10,268,939	$ 9,391,076	83.6%	81.9%	19.6%	18.9%
Higher Education Support...............	2,474,851	4.7%	2,450,561	2,376,773	99.0%	98.9%	4.7%	4.8%
Public Assistance and Medicaid.....	25,283,157	48.1%	5,979,517	5,258,004	23.7%	24.3%	11.4%	10.6%
Health and Human Services...........	1,579,156	3.0%	418,003	835,834	26.5%	23.9%	0.8%	1.7%
Justice and Public Protection.........	3,385,337	6.4%	2,174,618	1,839,823	64.2%	58.7%	4.1%	3.7%
Environmental Protection and Natural Resources...............	419,539	0.8%	120,837	113,806	28.8%	26.0%	0.2%	0.2%
Transportation................................	2,706,248	5.2%	998,487	795,222	36.9%	29.9%	1.9%	1.6%
General Government.....................	835,785	1.6%	259,367	471,800	31.0%	51.2%	0.5%	0.9%
Community and Economic Development.............	3,448,735	6.6%	2,547,184	2,494,800	73.9%	71.1%	4.8%	5.0%
Interest on Long-Term Debt...........	103,283	0.2%	103,283	114,859	100.0%	100.0%	0.2%	0.2%
Total Governmental Activities.....	$ 52,523,416	100.0%	$ 25,320,796	$ 23,691,997	48.2%	47.6%	48.2%	47.6%

Business-Type Activities

The State's enterprise funds reported net position of $8.94 billion, as of June 30, 2014, as compared to $5.82 billion in net position, as of June 30, 2013, an increase of $3.12 billion, or 53.6 percent. The Workers' Compensation Fund reported a $2.68 billion increase in net position during fiscal year 2014 as a result of higher returns on its investment portfolio.

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 2014



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, 2014 and June 30, 2013 (dollars in thousands).

	As of and for the Fiscal Year Ended June 30, 2014			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ 1,255,489	$ (163)	$ -	$ 1,255,326
Total Fund Balance...	5,928,956	5,308,443	3,324,419	14,561,818
Total Revenues	32,633,543	9,998,925	9,106,010	51,738,478
Total Expenditures..	30,971,219	10,273,103	12,445,942	53,690,264

	As of and for the Fiscal Year Ended June 30, 2013			
	General Fund	Other Major Funds	Nonmajor Governmental Funds	Total Governmental Funds
Unassigned Fund Balance (Deficit)	$ 1,259,670	$ (344)	$ (5,439)	$ 1,253,887
Total Fund Balance...	5,240,113	5,612,048	3,203,451	14,055,612
Total Revenues	32,243,038	9,723,036	9,198,001	51,164,075
Total Expenditures..	29,451,916	9,417,817	12,006,338	50,876,071

General Fund

The main operating fund of the State is the General Fund. During fiscal year 2014, General Fund revenue increased by $390.5 million and expenditures increased by $1.52 billion. Increases of $1.09 billion in federal government revenue, related to Medicaid spending, and $743.3 million in sales tax revenue are partially offset by the decrease of $1.4 billion in personal income tax revenue. In 2014, sales and use tax rates increased from 5.5 percent to 5.75 percent while personal income tax rates reflect an 8.5 percent reduction. The increase in expenditures is primarily due to increases in program spending for Primary, Secondary and Other Education and Public Assistance and Medicaid of $599.5 million and $1.24 billion, respectively. In fiscal year 2014, for greater transparency of Medicaid spending, Ohio House Bill 59 instituted line item restructuring in which all Medicaid line items are grouped together in Public Assistance and Medicaid. This restructuring resulted in increases in Public Assistance and Medicaid and decreases in Health and Human Services expenditures. Other sources and uses showed an increase of net sources of $1.22 billion primarily from a fiscal year 2014 increase in bond issuance proceeds and a fiscal year 2013 substantial transfer-out associated with the defeasement of bonds. Total fund balance at June 30, 2014 increased by $687.7 million (exclusive of a $732 thousand increase in inventories) or 13.1 percent. The State's Budget Stabilization Fund (BSF) balance of $1.48 billion is included within unassigned fund balance.

General Fund Budgetary Highlights

The State ended the first year of its 2014-15 biennial budget on June 30, 2014, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $4.81 billion. Total budgetary sources for the General Fund (including $1.19 billion in transfers from other funds) in the amount of $35.51 billion were below final estimates by $232.5 million or .7 percent during fiscal year 2014. The majority of this shortfall was the result of lower federal revenue related to lower than estimated General Revenue Fund (GRF) Medicaid spending. Total tax receipts were above final estimates by $175.5 million or .8 percent primarily as a result of the positive performance of the personal income tax quarterly estimated payments.

Total budgetary uses for the General Fund (including $1.77 billion in transfers to other funds) in the amount of $36.26 billion were below final estimates by $2.82 billion or 7.2 percent for fiscal year 2014. The majority of lower than appropriated spending came from Medicaid, economic development, revitalization, and public works programs. There was no budget stabilization designation at June 30, 2013, for use in balancing the final fiscal year 2014 budget.

The main appropriations act (Act) for the 2014-15 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, 2013. Reflecting a stated focus on job creation and continued spending restraint, and based on a conservative economic forecast, the Act provides for GRF appropriations of approximately $30.3 billion in fiscal year 2014, a 10.3 percent increase from fiscal year 2013 GRF expenditures, and approximately $31.7 billion in fiscal year 2015, a 4.7 percent increase from fiscal year 2014 appropriations.

GRF appropriations for major program categories in fiscal years 2014 and 2015 reflect the following increases: 16.8 percent in Medicaid in fiscal year 2014 relative to fiscal year 2013 actual spending and 6.2 percent in fiscal year 2015 relative to fiscal year 2014 Medicaid appropriations; 5 percent in fiscal year 2014 and 5.8 percent in fiscal year 2015 for primary and secondary education; 1.8 percent in fiscal year 2014 and 2.1 percent in fiscal year 2015 for higher education; 8.9 percent in fiscal year 2014 and .3 percent in fiscal year 2015 for mental health and addiction services and developmental disabilities; and .1 percent in fiscal year 2014 and .2 percent in fiscal year 2015 for corrections and youth services. The Act also implements a new school funding formula and allocates a portion of State public higher education funding to institutions based on their graduation rates.

The Act reflects tax reductions and related adjustments of major State taxes, primarily in personal income and sales and use taxes. These reductions and adjustments are projected to reduce GRF revenues by approximately $1.16 billion in fiscal year 2014 and by approximately $771 million in fiscal year 2015.

Subsequent to the passage of the Act, the State Controlling Board approved an increase to federal Medicaid appropriations by approximately $562 million in fiscal year 2014 and $2 billion in fiscal year 2015. These additional federal appropriations were authorized to support the federally-authorized expansion of the Medicaid program to cover those with incomes up to 138 percent of the federal poverty level using 100 percent federal funds in fiscal years 2014 and 2015.

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 2014 with a GRF cash balance of $1.7 billion and a GRF budgetary fund balance of $1.28 billion. In addition to meeting the State's statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2014 GRF revenues, the State transferred $300 million into the Medicaid Reserve Fund and $229 million into the Small Business Deduction Augmentation Fund in early fiscal year 2015.

Other Major Governmental Funds

The Job, Family and Other Human Services Fund had a fund balance of $340.4 million at June 30, 2014, a decrease of $204 million, or 37.5 percent, compared to fiscal year 2013. Federal Government revenue increased by $529.9 million, largely attributable to an overall increase in the Medicaid caseload and programmatic costs. Partially offsetting this increase is a decrease of $227.5 million in Other revenue. The decrease in fund balance is due to expenditures exceeding revenues by $188.2 million.

The increase in Public Assistance and Medicaid expenditures of $849.4 million is primarily attributable to an overall increase in Medicaid category enrollment and a fiscal year 2013 delay in the collection of certain assessments that resulted in the General Fund covering those expenditures. As discussed in the General Fund section on page 12, H.B.59 restructured Medicaid line items from Health and Human Services to Public Assistance and Medicaid expenditures. Health and Human Services decreased $14.6 million during the year.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2014, totaled approximately $4.97 billion dollars, a decrease of $99.6 million or 2 percent since June 30, 2013. Debt Service expenditures increased by $22.9 million during fiscal year 2014 as a result of scheduled principal and interest payments on outstanding bonds. The ending fund balance decreased at June 30, 2014, due to total expenditures being in excess of revenue collected during the fiscal year.

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 $2.68 billion to $9.46 billion at June 30, 2014. During the fiscal year, investment income increased $2.11 billion, largely due to an almost ten percent increase in the net return on its investment portfolio, as well as, from changes in investment policies. In addition, other expenses were approximately $966 million higher in fiscal year 2013 due to a one-time premium rebate to employers.

For fiscal year 2014, the *Lottery Commission Fund* reported $994.8 million in net income before transfers of approximately $958.6 million to the Education Fund. The $35.9 million increase in the fund's net position to approximately $302 million, as of June 30, 2014, was predominately due to increased video lottery terminal revenues from operations at four relatively new racinos. Video Lottery operations accounted for most of the $347.3 million increase in charges for sales and service revenues from $2.93 billion in fiscal year 2013 to $3.28 billion in fiscal year 2014. An increase in bonuses and commission expenses of $183.9 million partly offset the overall increase.

The $363.5 million increase in net position in the *Unemployment Compensation Fund* is primarily due to a continued decline in the unemployment rate. The unemployment rate in Ohio dropped from an average of 7.1 percent in fiscal year 2013 to an average of 6.6 percent in fiscal year 2014. The decrease in the unemployment rate caused the State's benefits and claims expense to decrease by $532.1 million or 26.9 percent from the previous fiscal year. While the benefits and claims expense decreased, the State also received less money from the federal government. During fiscal year 2014, the State received $293.9 million of federal funding compared to $719.4 million in fiscal year 2013 resulting in a 59.1 percent decrease. Contributing to the overall increase in net position is a $281.9 million gain on extinguishment of debt (for the Federal Unemployment Tax Act credit, see NOTE 2).

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, and June 30, 2013, the State had invested $25.98 billion and $25.94 billion, respectively, net of accumulated depreciation of $3.63 billion and $3.45 billion, respectively, in a broad range of capital assets, as detailed in the table on the following page.

The total increase in the State's capital assets, net of accumulated depreciation, for the current fiscal year was less than one percent (approximately a .1 percent increase for governmental activities and a 3.2 percent increase for business-type activities). Depreciation expense increased 19.5 percent for governmental activities.

The State completed construction on a variety of projects at various state facilities during fiscal year 2014 totaling approximately $481.9 million, as compared with $248.4 million in the previous fiscal year. As is further detailed in NOTE 20D of the notes to the financial statements, the State had $172.3 million in major construction commitments (unrelated to infrastructure), as of June 30, 2014, as compared with $170.2 million for 2013.

Capital Assets, Net of Accumulated Depreciation
As of June 30, 2014 and 2013
(dollars in thousands)

	As of June 30, 2014			As of June 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	$ 2,283,721	$ 11,994	$ 2,295,715	$ 2,241,945	$ 11,994	$ 2,253,939
Buildings	1,567,898	49,778	1,617,676	1,642,747	56,742	1,699,489
Land Improvements	168,251	7	168,258	179,988	8	179,996
Machinery and Equipment	240,356	20,906	261,262	240,860	40,186	281,046
Vehicles	173,840	1,363	175,203	162,360	1,065	163,425
Infrastructure:						
Highway Network:						
General Subsystem	8,568,626	-	8,568,626	8,567,374	-	8,567,374
Priority Subsystem	8,455,171	-	8,455,171	8,297,960	-	8,297,960
Bridge Network	2,893,240	-	2,893,240	2,931,984	-	2,931,984
Parks, Recreation, and Natural Resources System	89,310	-	89,310	85,497	-	85,497
	24,440,413	84,048	24,524,461	24,350,715	109,995	24,460,710
Construction-in-Progress	1,389,879	61,114	1,450,993	1,451,190	30,713	1,481,903
Total Capital Assets, Net	$ 25,830,292	$ 145,162	$25,975,454	$ 25,801,905	$ 140,708	$25,942,613

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 43,162 lane miles of highway and approximately 106.5 million square feet of deck area that comprises 14,236 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 2014, indicates that only 1.1 percent and .8 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. For fiscal year 2013, only 1.8 percent and 1.1 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating.

For the bridge network, it is the State's intention to allow no more than 15 percent of the total number of square feet of deck area to be in "fair" or "poor" condition. The most recent condition assessment, completed by ODOT for fiscal year 2014, indicates that only 3.4 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions. For fiscal year 2013, 3.7 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions.

For fiscal year 2014, total actual maintenance and preservation costs for the pavement network were $826.9 million, compared to estimated costs of $771.7 million, while total actual maintenance and preservation costs for the bridge network was $528 million, $22.6 million below estimate. For the previous fiscal year, total actual maintenance and preservation costs for the pavement network were $874.7 million, compared to estimated costs of $739.9 million, while total actual maintenance and preservation costs for the bridge network was $513.6 million, $29.5 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 section of this report.

Debt — Bonds and Notes Payable and Certificates of Participation Obligations

The State's general obligation bonds are backed by its full faith and credit. Revenue bonds and notes are secured with revenues pledged for the retirement of debt principal and the payment of interest. Special obligation bonds are supported with lease payments from tenants of facilities constructed with the proceeds from the bonds. Under certificate of participation (COPs) financing arrangements, the State is required to make rental payments (subject to appropriations) that approximate interest and principal payments made by trustees to certificate holders.

During fiscal year 2014, the State issued, at par, $1.54 billion in general obligation bonds, $148.8 million in special obligation bonds, and $65.2 million in certificates of participation. Of the general obligation bonds, special obligation bonds, and certificates of participation issued, at par, $338.6 million, $3.8 million, and $65.1 million, respectively, were refunding bonds and certificates. The total increase in the State's debt obligations for the current fiscal year, as based on carrying amount and considering prior year restatements, was 1.7 percent (a 1.8 percent increase for governmental activities and a 100 percent decrease for business-type activities).

As of June 30, 2014, and June 30, 2013, as restated, the State had total debt of approximately $17.73 billion and $17.44 billion, respectively, as shown in the table below.

Bonds and Notes Payable and Certificates of Participation
As of June 30, 2014 and 2013
(dollars in thousands)

	As of June 30, 2014			As of June 30, 2013 (as restated)		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds and Notes Payable:						
General Obligation Bonds	$ 9,366,348	$ -	$ 9,366,348	$ 8,812,499	$ -	$ 8,812,499
Revenue Bonds and Notes	6,355,222	-	6,355,222	6,486,884	15,422	6,502,306
Special Obligation Bonds	1,836,136	-	1,836,136	1,925,252	-	1,925,252
Certificates of Participation	173,603	-	173,603	198,266	-	198,266
Total Debt	$17,731,309	$ -	$17,731,309	$17,422,901	$15,422	$17,438,323

Credit Ratings

Ohio's general obligation debt credit ratings are Aa1 by Moody's Investors Service, Inc. (Moody's) and AA+ by Fitch Inc. (Fitch). Standard & Poor's Ratings Services (S&P) rates the State's general obligation debt as AA+, other than Highway Capital Improvement Obligations, which are rated AAA.

The State's special obligation debt, which is secured by and subject to General Revenue Fund appropriations, is rated one notch below the State's general obligation debt, with Moody's assigning an Aa2 rating and Fitch and S&P assigning an AA rating.

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

Revenue Bonds and Notes	Fitch	Moody's	S&P	Source of State Payment
Governmental Activities (Treasurer of State):				
State Infrastructure Bank	A+*	Aa2	AA	Federal Transportation Grants and Loan Receipts
Buckeye Tobacco Settlement Financing Authority (ratings are in a range)	B- to BBB	B3 to Aaa	B- to BBB	Pledged Receipts from the Tobacco Master Settlement Agreement

*This rating applies to GARVEE bond issuances Series 2010 and earlier.

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

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

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.

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 2014, leading economic indicators have softened somewhat recently but remain consistent with uninterrupted growth at a modest pace across the country and especially in Ohio. The Ohio unemployment rate in October 2014 was 5.3 percent, .5 percentage points below the national unemployment rate. From October 2013 to October 2014, Ohio's nonfarm payroll employment increased by 38 thousand jobs.

Nationally, real gross domestic product (GDP) increased by 3.5 percent in the third quarter of calendar year 2014 according to the advance estimate. The GDP growth rate has matched or exceeded 3.5 percent in four of the last five quarters. Year-over-year growth was only 2.3 percent due to a decrease of 2.1 percent in the first quarter of 2014. *(Please note: Some analysts expect the revised estimate to be less than 3.5 percent because the September report on international trade showed a drop in U.S. exports that was not factored into the initial GDP estimate.)*

The national labor market picture strengthened further in October 2014, as the level of nonfarm payroll employment increased by 214 thousand jobs and the August and September 2014 increases were revised upward by a total of 31 thousand jobs. The U.S. unemployment rate for October 2014 was 5.8 percent, down from 5.9 percent in September 2014, and down from 7.2 percent in October 2013.

The 2014 Mid-Biennium Review (MBR)
On March 12, 2014, the Governor announced a series of initiatives resulting from a "mid-biennium review" of the 2014 and 2015 biennium with the stated purpose of keeping Ohio moving forward. The Governor's 2014 MBR included a range of proposals in elementary and secondary education, higher education, income tax reductions and other tax adjustments, workforce, and human services. It also proposed adjustments to appropriations for the Department of Rehabilitation and Correction, local property tax reimbursement, and debt service. These proposals were introduced in the General Assembly in March as fourteen separate pieces of legislation. Seven of the fourteen bills were enacted by the General Assembly in May and June 2014 and addressed elementary and secondary education, higher education, personal income tax reductions and adjustments, workforce, human services, and a Medicaid reserve fund. Please see the Letter of Transmittal within the Introductory Section for additional information regarding the MBR.

General Revenue Fund
For fiscal year 2015, total fiscal year-to-date GRF receipts collected through October 2014 are $45.4 million below estimates and $272.1 million higher than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2014 are $114.7 million below estimates for the first four months of fiscal year 2015 and $1.27 billion above expenditures for the first four months of the prior fiscal year. As of October 2014, receipts were .4 percent below budget estimates and disbursements were one percent below budget estimates for fiscal year 2015. Fiscal year 2015 receipts are 2.7 percent ahead of receipts for the first four months of fiscal year 2014. Disbursements for fiscal year 2015 are 11.9 percent above disbursements for the same time period of fiscal year 2014.

Workers' Compensation Fund
The Bureau of Workers' Compensation (BWC) is in the process of transitioning its premium collection model to a prospective payment system that will provide more flexibility for employers while reducing overall systems costs. The change will align BWC with standard industry practice and will enable BWC to collect premiums before extending coverage. The transition becomes effective July, 1, 2015, for private employers and January 1, 2016, for public employers. The prospective billing system will create an overall base rate reduction of two percent for pri-

vate employers and four percent for public employers and provide for increased ability to detect employer non-compliance and fraud. Transitional one-time premium credits are planned to eliminate any double payment by employers.

Unemployment Compensation Fund

During fiscal years 2009 and 2010, the State sought federal assistance in meeting its unemployment benefit costs and received repayable advances in the Unemployment Trust Fund of $2.31 billion from the Federal Unemployment Account to cover the insufficient State funds for benefit claims during those fiscal years. The State continues to make principal and interest payments on these advances. During fiscal year 2014, Federal Unemployment Tax Act (FUTA) credits of $281.9 million also offset the outstanding repayable advances. As of June 30, 2014, $1.38 billion of the repayable advances remains. More information relating to the FUTA credits and remaining advances can be found in NOTE 2D and NOTE 14, respectively.

Contacting the Ohio Office of Budget and Management

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