# State of Ohio

## Management's Discussion and Analysis
## For the Fiscal Year Ended June 30, 2017
(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, 2017. 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 2017, net position of the State's primary government increased by $378.1 million, and ended fiscal year 2017 with a balance of $29.71 billion. Net position of the State's component units increased by $707.1 million, and ended fiscal year 2017 with a balance of $10.04 billion. See additional discussion beginning on page 8.

*Fund Financial Statements*
Governmental funds reported a combined ending fund balance of $13.84 billion that was comprised of $137.8 million in nonspendable, $8.87 billion restricted for specific purposes, $1.6 billion committed, $3 billion in assigned, and $238.2 million in unassigned. See additional discussion beginning on page 11.

As of June 30, 2017, the General Fund's fund balance was approximately $5.39 billion, including $43.6 million in nonspendable, $1.37 billion in restricted, $739.7 million in committed, $3 billion in assigned, and $239.5 million in unassigned. The General Fund's fund balance decreased by $265.1 million (exclusive of a $615 thousand decrease in inventories) or 4.7 percent during fiscal year 2017. See additional discussion beginning on page 11.

Proprietary funds reported net position of $10.73 billion, as of June 30, 2017, an increase of $1.34 billion since June 30, 2016. This increase is largely due to the net increase of $1 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 $27.75 billion at June 30, 2017. The majority of the $340.4 million increase during fiscal year 2017 was from additions to construction-in-progress projects. 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 $280.4 million or 1.6 percent during fiscal year 2017, for an ending balance of $17.95 billion. During the year, the State issued a par amount of $1.39 billion in long-term debt. There were no advance refunding bonds. See additional discussion beginning on page 15.

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

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

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

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

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

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

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

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

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

**Fund Financial Statements – Reporting more detail about the State's most significant funds**
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. State law and bond covenants mandate the use of some funds. The Ohio General Assembly establishes other funds to control and manage money for particular purposes or to show that the State is properly using certain taxes and grants. The State employs fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The basic fund financial statements can be found on pages 24 through 43 of this report while the combining fund statements and schedules can be found on pages 161 through 239. 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 schedules in required supplementary information and combining statements to demonstrate compliance with the appropriated budget. The State's budgetary process is explained further in NOTE 1D. to the financial statements.

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

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

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

*Fiduciary Funds* — The State is the trustee, or fiduciary, for assets that — because of a trust arrangement — can only be used for the trust beneficiaries. The State is 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 48 through 142 of this report.

**Required Supplementary Information**
Following the notes is a section of required supplementary information in three parts. The first part discusses the assessed condition and estimated and actual maintenance and preservation costs of the state's highway and

bridge infrastructure assets that are reported using the modified approach. Limited in application to a government's infrastructure assets, the modified approach provides an alternative to the traditional recognition of depreciation expense. The second part presents various schedules disclosing the State's share of pension obligation, employer contributions required as compared to employer contributions actually paid, and covered payroll, for the various retirement systems in which the State participates. The final part is the budgetary comparison schedule for the General Fund and major special revenue fund and the accompanying note that explains the GAAP versus budgetary basis. Required supplementary information can be found on pages 143 through 159 of this report.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

*Net Position.* During fiscal year 2017, as shown in the table below, the combined net position of the State's primary government increased by $378.1 million or 1.3 percent. Net position reported for governmental activities decreased approximately $965.2 million or 4.8 percent, compared to the net position on July 1, 2016, and business-type activities increased $1.34 billion, or 14.3 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, 2017 and 2016**
*(dollars in thousands)*

| | As of June 30, 2017 | | | As of June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Current and Other Assets | $ 19,854,708 | $ 30,114,503 | $ 49,969,211 | $ 18,098,974 | $ 28,596,642 | $ 46,695,616 |
| Capital Assets | 27,567,236 | 182,515 | 27,749,751 | 27,213,263 | 196,113 | 27,409,376 |
| Total Assets | 47,421,944 | 30,297,018 | 77,718,962 | 45,312,237 | 28,792,755 | 74,104,992 |
| Deferred Outflows of Resources | 6,040,976 | 138,487 | 6,179,463 | 5,757,784 | 94,360 | 5,852,144 |
| Current and Other Liabilities | 8,204,786 | 595,194 | 8,799,980 | 6,332,238 | 848,894 | 7,181,132 |
| Noncurrent Liabilities | 24,223,894 | 19,101,127 | 43,325,021 | 22,628,269 | 18,647,123 | 41,275,392 |
| Total Liabilities | 32,428,680 | 19,696,321 | 52,125,001 | 28,960,507 | 19,496,017 | 48,456,524 |
| Deferred Inflows of Resources | 2,051,745 | 14,181 | 2,065,926 | 2,161,787 | 9,397 | 2,171,184 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 24,140,366 | 176,237 | 24,316,603 | 23,925,328 | 186,037 | 24,111,365 |
| Restricted | 5,414,054 | 10,393,851 | 15,807,905 | 5,111,516 | 9,064,004 | 14,175,520 |
| Unrestricted | (10,571,925) | 154,915 | (10,417,010) | (9,089,117) | 131,660 | (8,957,457) |
| Total Net Position | $ 18,982,495 | $ 10,725,003 | $ 29,707,498 | $ 19,947,727 | $ 9,381,701 | $ 29,329,428 |

As of June 30, 2017, the primary government's net investment in capital assets (e.g., land, buildings, infrastructure, and construction-in-progress) was $24.32 billion. Restricted net position was approximately $15.81 billion, resulting in an unrestricted $10.42 billion deficit. Net position is restricted when constraints placed on their use are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The State's Budget Stabilization Fund balance of over $2.03 billion at June 30, 2017, is included within unrestricted net position.

The government-wide Statement of Net Position reflects a $10.57 billion deficit for unrestricted governmental activities, which is primarily attributable to the following two factors:

1) The State of Ohio, like many other state governments, issues general and special obligation debt, the proceeds of which benefit local governments and component units. The proceeds are used to build facilities for public-assisted colleges and universities and local school districts and finance infrastructure improvements for local governments. The policy of selling general obligation and special obligation bonds for these purposes has been the practice for many years. Of the $11.31 billion of outstanding general obligation and special obligation debt at June 30, 2017, $8.26 billion is attributable to debt issued for state assistance to component units (Ohio Facilities Construction Commission and the colleges and universities) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt. Unspent proceeds related to these bond issuances are included on the Statement of Net Position as restricted net position. By issuing such debt, the State is left to reflect significant liabilities without the benefit of recording the capital assets constructed with the proceeds from the debt issuances.

2) The State reported liabilities of $4.92 billion as of June 30, 2017, for its proportionate share of the net pension liability of the associated pension plans that provide benefits to State employees.

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 2017 and 2016 follows.

**Changes in Net Position**
**For the Fiscal Years Ended June 30, 2017 and 2016**
*(dollars in thousands)*

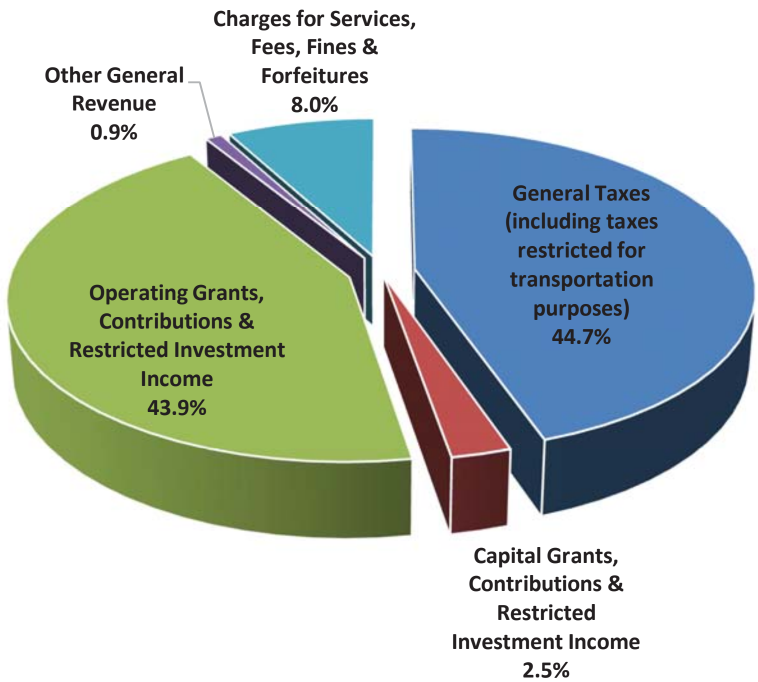
| | Fiscal Year 2017 | | | Fiscal Year 2016 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Program Revenue: | | | | | | |
| Charges for Services, Fees, Fines and Forfeitures | $ 4,556,648 | $ 6,854,130 | $ 11,410,778 | $ 4,927,671 | $ 6,674,159 | $ 11,601,830 |
| Operating Grants, Contributions and Restricted Investment Income/ (loss) | 25,070,684 | 1,959,320 | 27,030,004 | 24,721,794 | 1,444,535 | 26,166,329 |
| Capital Grants, Contributions and Restricted Investment Income/ (loss) | 1,442,906 | - | 1,442,906 | 1,430,936 | - | 1,430,936 |
| Total Program Revenues | 31,070,238 | 8,813,450 | 39,883,688 | 31,080,401 | 8,118,694 | 39,199,095 |
| General Revenues: | | | | | | |
| General Taxes | 23,578,863 | - | 23,578,863 | 23,285,081 | - | 23,285,081 |
| Taxes Restricted for Transportation | 1,952,512 | - | 1,952,512 | 1,798,483 | - | 1,798,483 |
| Tobacco Settlement | 350,378 | - | 350,378 | 341,130 | - | 341,130 |
| Escheat Property | 159,585 | - | 159,585 | 161,904 | - | 161,904 |
| Unrestricted Investment Income | 2,975 | 12 | 2,987 | 70,897 | 8 | 70,905 |
| Other | 30 | - | 30 | 1,683 | - | 1,683 |
| Total General Revenues | 26,044,343 | 12 | 26,044,355 | 25,659,178 | 8 | 25,659,186 |
| Total Revenue | 57,114,581 | 8,813,462 | 65,928,043 | 56,739,579 | 8,118,702 | 64,858,281 |
| Expenses: | | | | | | |
| Primary, Secondary and Other Education | 13,227,781 | - | 13,227,781 | 12,728,780 | - | 12,728,780 |
| Higher Education Support | 2,760,035 | - | 2,760,035 | 2,603,480 | - | 2,603,480 |
| Public Assistance and Medicaid | 29,873,408 | - | 29,873,408 | 29,103,304 | - | 29,103,304 |
| Health and Human Services | 1,636,753 | - | 1,636,753 | 1,656,750 | - | 1,656,750 |
| Justice and Public Protection | 3,883,836 | - | 3,883,836 | 3,587,845 | - | 3,587,845 |
| Environmental Protection and Natural Resources | 571,532 | - | 571,532 | 586,001 | - | 586,001 |
| Transportation | 2,860,338 | - | 2,860,338 | 2,602,708 | - | 2,602,708 |
| General Government | 946,923 | - | 946,923 | 948,796 | - | 948,796 |
| Community and Economic Development | 3,256,655 | | 3,256,655 | 3,353,699 | | 3,353,699 |
| Interest on Long term Debt (excludes interest charged as program expense) | 94,290 | - | 94,290 | 99,819 | - | 99,819 |
| Workers' Compensation | - | 2,419,185 | 2,419,185 | - | 3,322,700 | 3,322,700 |
| Lottery Commission | - | 2,882,887 | 2,882,887 | - | 2,866,920 | 2,866,920 |
| Unemployment Compensation | - | 985,624 | 985,624 | - | 1,021,152 | 1,021,152 |
| Tuition Trust Authority | - | 63,711 | 63,711 | - | 67,385 | 67,385 |
| Office of Auditor of State | - | 91,100 | 91,100 | - | 78,917 | 78,917 |
| Total Expenses | 59,111,551 | 6,442,507 | 65,554,058 | 57,271,182 | 7,357,074 | 64,628,256 |
| Surplus/ (Deficiency) Before Gains (Losses) and Transfers | (1,996,970) | 2,370,955 | 373,985 | (531,603) | 761,628 | 230,025 |
| Gain (Loss) on Extinguishment of Debt | - | 4,085 | 4,085 | - | 502,586 | 502,586 |
| Transfers - Internal Activities | 1,031,738 | (1,031,738) | - | 1,160,878 | (1,160,878) | - |
| Change In Net Position | (965,232) | 1,343,302 | 378,070 | 629,275 | 103,336 | 732,611 |
| Net Position, July 1 | 19,947,727 | 9,381,701 | 29,329,428 | 19,318,452 | 9,278,365 | 28,596,817 |
| Net Position, June 30 | $ 18,982,495 | $ 10,725,003 | $ 29,707,498 | $ 19,947,727 | $ 9,381,701 | $ 29,329,428 |

## Governmental Activities

Expenses exceeded revenues during fiscal year 2017 for governmental activities. Revenues of $57.11 billion for fiscal year 2017 were $375 million higher than those reported for fiscal year 2016. General taxes (including taxes restricted for transportation purposes) comprised 44.7 percent of fiscal year 2017 total revenues and increased by 1.8 percent compared to fiscal year 2016. Operating grants, contributions and restricted investment income, making up 43.9 percent of total revenues, increased by 1.4 percent compared to fiscal year 2016. Expenses for fiscal year 2017 increased $1.84 billion or 3.2 percent from fiscal year 2016, as a result of additional school foundation funding and an overall increase in the Medicaid and health care service costs during fiscal year 2017. Fiscal year 2017 net transfers of $1.03 billion reflect a decrease of 11.1 percent from fiscal year 2016.

The following chart illustrates revenues by source of governmental activities as percentages of total reported for the fiscal year ended June 30, 2017.

**Governmental Activities — Sources of Revenue**
**Fiscal Year 2017**




**Total FY 17 Revenue for Governmental Activities = $57.11 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, 2017, with comparative numbers from June 30, 2016. 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, 2017 and 2016**
*(dollars in thousands)*

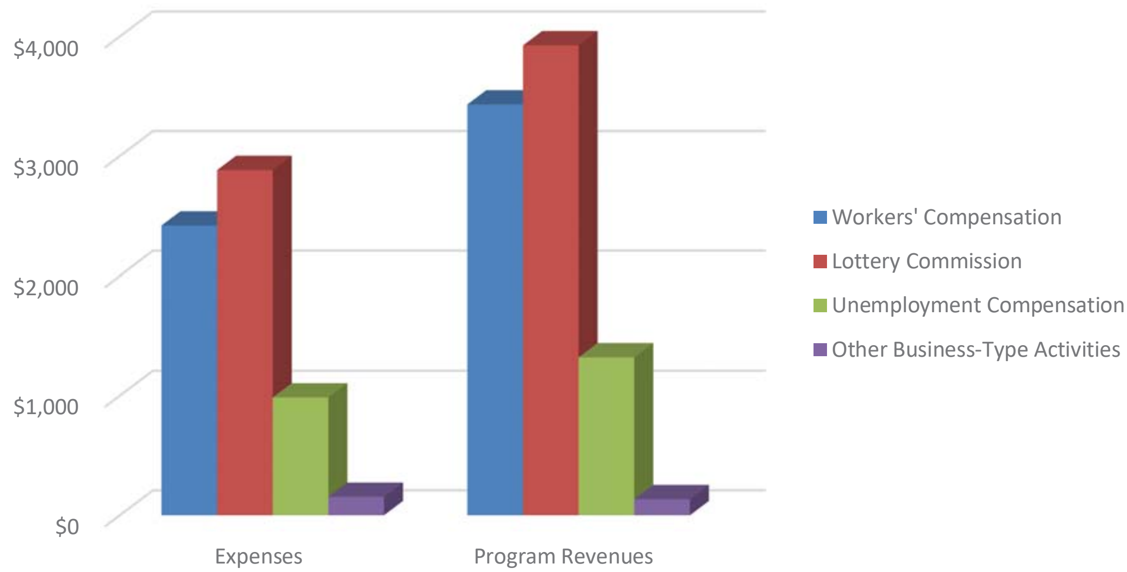
| | Program Expenses | Percent of Total Expense | Net Cost of Program | | Net Cost as Percentage of Total Expenses for Program | | Net Cost as Percentage of Total Expenses — All Programs | |
|---|---|---|---|---|---|---|---|---|
| **Program** | **2017** | **2017** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Primary, Secondary and Other Education | $ 13,227,781 | 22.4% | $11,244,938 | $10,764,162 | 85.0% | 84.6% | 19.0% | 18.8% |
| Higher Education Support | 2,760,035 | 4.7% | 2,731,262 | 2,578,498 | 99.0% | 99.0% | 4.6% | 4.5% |
| Public Assistance and Medicaid | 29,873,408 | 50.5% | 6,588,884 | 5,889,767 | 22.1% | 20.2% | 11.1% | 10.3% |
| Health and Human Services | 1,636,753 | 2.8% | 650,297 | 693,080 | 39.7% | 41.8% | 1.1% | 1.2% |
| Justice and Public Protection | 3,883,836 | 6.5% | 2,548,008 | 2,315,895 | 65.6% | 64.5% | 4.3% | 4.0% |
| Environmental Protection and Natural Resources | 571,532 | 1.0% | 263,790 | 283,266 | 46.2% | 48.3% | 0.4% | 0.5% |
| Transportation | 2,860,338 | 4.8% | 1,108,391 | 780,051 | 38.8% | 30.0% | 1.9% | 1.4% |
| General Government | 946,923 | 1.6% | 359,983 | 351,436 | 38.0% | 37.0% | 0.6% | 0.6% |
| Community and Economic Development | 3,256,655 | 5.5% | 2,451,470 | 2,434,807 | 75.3% | 72.6% | 4.2% | 4.2% |
| Interest on Long-Term Debt | 94,290 | 0.2% | 94,290 | 99,819 | 100.0% | 100.0% | 0.2% | 0.2% |
| Total Governmental Activities | $ 59,111,551 | 100.0% | $ 28,041,313 | $ 26,190,781 | 47.4% | 45.7% | 47.4% | 45.7% |

### Business-Type Activities

The State's enterprise funds reported net position of $10.73 billion, as of June 30, 2017, compared to $9.38 billion, as of June 30, 2016, an increase of $1.34 billion, or 14.3 percent. The Workers' Compensation Fund reported a $1 billion increase in net position during fiscal year 2017 primarily from higher returns on its investment portfolio and a significant reduction in expenses.

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 2017**
(dollars in millions)




## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

Governmental funds reported the following results, as of and for the fiscal years ended June 30, 2017 and June 30, 2016 (dollars in thousands).

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

| | As of and for the Fiscal Year Ended June 30, 2016 | | | |
|---|---|---|---|---|
| | General Fund | Other Major Funds | Nonmajor Governmental Funds | Total Governmental Funds |
| Unassigned Fund Balance (Deficit)......................... | $ 863,925 | $ (280) | $ (148) | $ 863,497 |
| Total Fund Balance............................................... | 5,654,361 | 5,107,684 | 3,367,496 | 14,129,541 |
| Total Revenues..................................................... | 36,736,582 | 10,771,971 | 9,480,690 | 56,989,243 |
| Total Expenditures................................................ | 34,842,685 | 10,822,717 | 13,043,152 | 58,708,554 |

*General Fund*
The main operating fund of the State is the General Fund. During fiscal year 2017, General Fund revenue increased by $569.8 million and expenditures increased by $1.89 billion. Increases of $284.8 million in federal government revenue related primarily to Medicaid spending and $256.4 million in sales tax revenue primarily constituted the rise in revenue. The increase in expenditures is primarily due to increases in program spending for Primary, Secondary and Other Education and Public Assistance and Medicaid of $460.1 million and $1.21 billion, respectively. The Primary, Secondary and Other Education increase is primarily due to increased payments to school districts under the foundation funding formula. Increases in Medicaid spending constituted the largest portion of the increase in the Public Assistance and Medicaid category. Total fund balance at June 30, 2017, decreased by $265.1 million (exclusive of a $615 thousand decrease in inventories) or 4.7 percent. The State's Budget Stabilization Fund (BSF) balance of over $2.03 billion is included within unassigned fund balance.

*General Fund Budgetary Highlights*
The State ended the second year of its 2016-17 biennial budget on June 30, 2017, with a General Fund budgetary fund balance (i.e., cash less encumbrances) of $4.42 billion. Total budgetary sources for the General Fund (including $993.1 million in transfers from other funds) in the amount of $40.31 billion were below final estimates by $775 million or 1.9 percent during fiscal year 2017. 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 $52.4 million or 0.2 percent primarily due to higher than expected income and sales tax receipts.

Total budgetary uses for the General Fund (including $1.42 billion in transfers to other funds) in the amount of $41.72 billion were below final estimates by $4.39 billion or 9.5 percent for fiscal year 2017. The majority of lower than appropriated spending came from Medicaid, economic development programs, and higher education. There was no budget stabilization designation at June 30, 2016, for use in balancing the final fiscal year 2017 budget.

The main appropriations act (Act) for the 2016-17 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, 2015. Reflecting a stated continuing focus on job creation and based on a conservative economic forecast, the Act provides for GRF appropriations of $36.3 billion in fiscal year 2017, a 4.2 percent increase from fiscal year 2016 appropriations.

GRF appropriations for major program categories in fiscal year 2017, relative to 2016 appropriations, reflects the following increases: 5.1 percent in Medicaid in fiscal year 2017 (largely due to shifting funding to the GRF from non-GRF sources); 4.2 percent in fiscal year 2017 for primary and secondary education; 3.3 percent in fiscal year 2017 for higher education; 7.3 percent in fiscal year 2017 for mental health and developmental disabilities; and three percent in fiscal year 2017 for corrections and youth services.

The Act reflects tax reductions and related adjustments that are projected to reduce GRF revenues by approximately $952 million in fiscal year 2017. These items include a 6.3 percent decrease in State personal income tax rates in calendar year 2015 and exemptions related to business net income.

As is customary in the second year of a biennium, the State revised fiscal year 2017 revenue forecasts to reflect updated economic assumptions, actual fiscal year 2016 revenues, and tax law adjustments since the Act's adoption. The revised fiscal year 2017 GRF tax revenue forecast is approximately $874 million less than previously estimated. The reductions are primarily in the personal income, sales and use, and commercial activity taxes.

The 2016-17 Act also modifies the school funding formula to distribute new resources to districts with less capacity to raise revenues locally and freezes tuition and fees for two- and four-year higher education institutions. In addition, the Act created a health and human services fund to provide for public health programs and services and authorized a transfer from the GRF of $150 million to the fund in fiscal year 2017.

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 2017 with a GRF cash balance of $557.1 million and a GRF budgetary fund balance of $170.9 million. The State continues to meet its statutory target to maintain an ending fund balance reflecting one-half of one percent of fiscal year 2017 GRF revenues.

*Other Major Governmental Funds*
The Job, Family and Other Human Services Fund had a fund balance of $432.1 million at June 30, 2017, an increase of $78.3 million, or 22.1 percent, compared to fiscal year 2016. Licenses, Permits and Fees revenue decreased $184.7 million during fiscal year 2017, primarily due to a decrease in hospital assessments. A decrease of $239.9 million in federal government revenue also contributed to the overall decrease of $398.9 million. Public Assistance and Medicaid expenditures decreased $463.5 million. The decrease is primarily related to hospital assessments and a caseload drop in the food assistance program.

The fund balance for the *Buckeye Tobacco Settlement Financing Authority Revenue Bonds Fund*, as of June 30, 2017, totaled approximately $4.61 billion dollars, a decrease of $144 million or three percent since June 30, 2016. Tobacco Settlement Receipts decreased $26.9 million over the prior year. Additionally, the Primary, Secondary and Other Education expenditures increased $16.6 million due to an increase in the amortization of the deferred charge set up for the amount of bond proceeds used to fund certain State capital projects related to education.

**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 $1 billion, or 11.5 percent, to $9.76 billion at June 30, 2017. During the fiscal year, investment income increased $512.2 million, largely due to a 1.7 percent increase in the net return on its investment portfolio. Additionally, Other expenses decreased nearly $910 million or 44.6 percent. This expense reduction, primarily related to decreases of over $2 billion in the DWRF (Disabled Workers' Relief Fund) assessments and unbilled receivable amounts, was partly offset by an increase in the premium rebate expense of $1.1 billion. An increase in premium and assessment income also contributed to the net position increase.

For fiscal year 2017, the *Lottery Commission Fund* reported $1.04 billion in net income before transfers of approximately $1.04 billion to the Lottery Profits Education Fund. Net position at June 30, 2017, in the amount of $242.7 million, rose a modest 0.1 percent over the prior year.

The Unemployment Compensation Fund's net position increased $328.9 million over fiscal year 2016. A healthier beginning balance, aided by a $127 million increase in premium and assessment income and a $29.7 million decrease in benefits and claims expense contributed to the overall increase. The fund also reported a $4.1 million gain on extinguishment of debt related to the payoff of federal advances early in fiscal year 2017 (for the Federal Unemployment Tax Act credit, see NOTE 2D).

## Capital Asset and Debt Administration

### Capital Assets
As of June 30, 2017, and June 30, 2016, the State's primary government had invested $27.75 billion and $27.41 billion, respectively, net of accumulated depreciation of $4.49 billion and $4.14 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 1.2 percent (a 1.3 percent increase for governmental activities and a 6.9 percent decrease for business-type activities). Depreciation expense increased 3.8 percent for governmental activities and 49.4 percent for business-type activities.

The State completed construction on a variety of projects at various state facilities during fiscal year 2017 totaling approximately $200.6 million, as compared with $350 million in the previous fiscal year. As is further detailed in NOTE 20D of the notes to the financial statements, the State had $323.9 million in major construction commitments (unrelated to infrastructure), as of June 30, 2017, as compared with $291.6 million for 2016.

**Capital Assets, Net of Accumulated Depreciation**
**As of June 30, 2017 and 2016**
*(dollars in thousands)*

| | As of June 30, 2017 | | | As of June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
| Land ...................................... | $ 2,391,230 | $ 9,466 | $ 2,400,696 | $ 2,358,859 | $ 9,466 | $ 2,368,325 |
| Buildings ................................ | 1,486,323 | 28,983 | 1,515,306 | 1,545,669 | 35,947 | 1,581,616 |
| Land Improvements ................. | 172,947 | - | 172,947 | 169,168 | - | 169,168 |
| Machinery and Equipment ........ | 426,855 | 34,133 | 460,988 | 535,745 | 42,213 | 577,958 |
| Vehicles ................................. | 195,571 | 1,917 | 197,488 | 186,917 | 1,650 | 188,567 |
| Infrastructure: | | | | | | |
| Highway Network: | | | | | | |
| General Subsystem ............. | 8,647,678 | - | 8,647,678 | 8,630,137 | - | 8,630,137 |
| Priority Subsystem .............. | 8,657,803 | - | 8,657,803 | 8,634,436 | - | 8,634,436 |
| Bridge Network ........................ | 2,798,045 | - | 2,798,045 | 2,838,264 | - | 2,838,264 |
| Parks, Recreation, and | | | | | | |
| Natural Resources System .... | 108,426 | - | 108,426 | 116,576 | - | 116,576 |
| | 24,884,878 | 74,499 | 24,959,377 | 25,015,771 | 89,276 | 25,105,047 |
| Construction-in-Progress .......... | 2,682,358 | 108,016 | 2,790,374 | 2,197,492 | 106,837 | 2,304,329 |
| Total Capital Assets, Net .......... | $ 27,567,236 | $ 182,515 | $ 27,749,751 | $ 27,213,263 | $ 196,113 | $ 27,409,376 |

*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 43,193 lane miles of highway and approximately 107.5 million square feet of deck area that comprises 14,276 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 2017, indicates that 2.1 percent and 0.8 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating. Comparatively, 1.9 percent and 0.6 percent of the priority and general subsystems, respectively, were assigned a "poor" condition rating in fiscal year 2016.

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 2017, indicates that only 1.9 percent of the number of square feet of bridge deck area was considered to be in "fair" and "poor" conditions. In comparison, fiscal year 2016 had two percent of the number of square feet of bridge deck area considered to be in "fair" and "poor" conditions.

Fiscal year 2017 total actual maintenance and preservation costs for the pavement network were $918.8 million, compared to estimated costs of $730.7 million, while total actual maintenance and preservation costs for the bridge network was $526 million, $56.2 million above estimate. In the previous fiscal year, total actual maintenance and preservation costs for the pavement network were $902.9 million, compared to estimated costs of $902.4 million, while total actual maintenance and preservation costs for the bridge network was $552 million, $52.5 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 Infrastructure section of this report.

**Debt — Bonds and Notes Payable and Certificates of Participation Obligations**

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

During fiscal year 2017, the State issued a par amount of $810 million in general obligation bonds, $217.6 million in revenue bonds, $290 million in special obligation bonds, and $73.8 million in certificates of participation. There were no advance refunding bonds. The total increase in the State's debt obligations for the current fiscal year, based on carrying amount, was 1.6 percent, all in governmental activities.

As of June 30, 2017, and June 30, 2016, the State had total debt of approximately $17.95 billion and $17.67 billion, respectively, as shown in the table below.

**Bonds and Notes Payable and Certificates of Participation**
**As of June 30, 2017 and 2016**
*(dollars in thousands)*

| | Governmental Activities | |
|---|---|---|
| | June 30, 2017 | June 30, 2016 |
| Bonds and Notes Payable: | | |
| General Obligation Bonds...................... | $ 9,297,641 | $ 9,283,156 |
| Revenue Bonds and Notes..................... | 6,394,647 | 6,261,882 |
| Special Obligation Bonds....................... | 2,016,991 | 1,930,592 |
| Certificates of Participation........................ | 241,627 | 194,899 |
| Total Debt............................................ | $ 17,950,906 | $ 17,670,529 |

*Credit Ratings*

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

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

The State's bonds and notes are rated as shown on the following page:

| Credit Ratings As of June 30, 2017 | | | | | |
|---|---|---|---|---|---|
| Bonds and Notes | Issuer | Fitch Inc. | Moody's Investor Services, Inc. | S & P Global Ratings Services | Security and Source of Funds |
| General Obligations Bonds: | | | | | |
| Common Schools Capital Facilities .. | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Higher Education Capital Facilities ... | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Highway Capital Improvements ......... | Treasurer of State | AA+ | Aa1 | AAA | Highway User Receipts |
| Infrastructure Improvements ............. | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Coal Research and Development ...... | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Natural Resources Capital Facilities . | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Conservation Projects ..................... | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Third Frontier Research and Development ......................... | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Site Development ............................ | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Veterans' Compensation .................. | Ohio Public Facilities Commission | AA+ | Aa1 | AA+ | General Revenue Funds |
| Revenue Bonds: | | | | | |
| Major New State Infrastructure.......... | Treasurer of State | N/A | Aa2 | AA | Federal Transportation Grants |
| Tobacco Settlement Asset-Backed... | Buckeye Tobacco Settlement Financing Authority | N/A | Caa1 to B3 | B- | Pledged Receipts from the Tobacco Master Settlement Agreement |
| Special Obligation Bonds: | | | | | |
| Mental Health Facilities................... | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Parks and Recreation Facilities......... | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Cultural and Sports Facilities............ | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Adult Correctional Facilities.............. | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Administrative Facilities.................... | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Juvenile Correctional Facilities.......... | Treasurer of State | AA | Aa2 | AA | General Revenue Funds |
| Transportation Building Projects........ | Treasurer of State | AA | Aa2 | AA | Highway User Receipts |
| Highway Safety Facilities................. | Treasurer of State | AA | Aa2 | AA | Highway User Receipts |

*Limitations on Debt*

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

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

The State met the requirements of Section 17 of Article VIII of the Ohio Constitution and more detailed information on the State's long-term debt, including changes during the year, can be found in NOTES 10 through 13 and NOTE 15 to the financial statements.

## Conditions Expected to Affect Future Operations

*Economic Factors*

Through October 2017, leading economic indicators point toward uninterrupted growth into the next year. The Ohio unemployment rate in October 2017 was 5.1 percent. From October 2016 to October 2017, Ohio's nonfarm payroll employment increased by approximately 59 thousand jobs.

Nationally, real gross domestic product (GDP) expanded at an annual rate of three percent in the third quarter, after growing 3.1 percent in the second quarter of calendar year 2017, the strongest two-quarter period since the second half of 2014. The third quarter growth would likely have been higher if not for the effects of the hurricanes. Compared with a year earlier, the real GDP is approximately 0.1 percent higher.

The national labor market outlook strengthened further in October 2017, as the level of nonfarm payroll employment increased by 261 thousand jobs. The U.S. unemployment rate for October 2017 was 4.1 percent, its lowest level since December 2000.

*The 2018-19 Biennial Budget*

The main appropriations act (Act) for the 2018-19 biennium for the General Revenue Fund (GRF), the largest, non-GAAP, budgetary-basis operating fund included in the State's General Fund, was passed by the General Assembly and signed (with selective vetoes) by the Governor on June 30, 2017. In consideration of lower GRF revenue estimates, the Act included spending cuts across most State agencies and programs. Reflecting a stated continuing focus on job creation, and based on a conservative economic forecast, the Act provides for GRF appropriations of approximately $32.2 billion in fiscal year 2018, a 6.7 percent decrease from fiscal year 2017 actual expenditures, and $33.3 billion in fiscal year 2019, a 3.5 percent increase over fiscal year 2018 appropriations.

GRF appropriations for major program categories in fiscal years 2018, relative to 2017 expenditures, and 2019, relative to 2018 appropriations, reflect the following changes: for Medicaid, 15 percent decrease in fiscal year 2018 (driven largely by the replacement of the Medicaid managed care organization sales tax that was deposited into the GRF, by a new health provider assessment that will be deposited into a dedicated non-GRF fund), and 5.7 percent increase in fiscal year 2019; for elementary and secondary education, 1.5 percent increase in fiscal year 2018, and 1.6 percent increase in fiscal year 2019; for higher education, 0.8 percent increase in fiscal year 2018, and 1.4 percent increase in fiscal year 2019; for mental health and developmental disabilities, 0.9 percent decrease in fiscal year 2018 (driven by the shift in funding of certain Medicaid expenditures to the Medicaid program category), and 2.1 percent increase in fiscal year 2019; for corrections and youth services, 4.2 percent increase in fiscal year 2018, and 1.6 percent increase in fiscal year 2019. The Act also modifies some components of the school funding formula to better distribute resources to districts with less capacity to raise revenues locally and limits increases in tuition and fees for two- and four-year higher education institutions.

The Act reflects certain tax law changes, resulting in an estimated net GRF revenue increase of $12.8 million in fiscal year 2018 and a decrease of $30.8 million in fiscal year 2019. Included in these changes are adjustments to the personal income tax brackets and deduction amount. In addition, the Act reflects potentially non-recurring sources of revenues including $84.5 million in transfers to the GRF from non-GRF funds, $200 million from unclaimed funds, $31 million from the sale of prison farmland, and $20 million from a tax amnesty program.

*General Revenue Fund*

For fiscal year 2018, total fiscal year-to-date GRF receipts collected through October 2017 are $13.4 million below estimates and $558.2 million lower than collections through October of the prior fiscal year. Total fiscal year-to-date GRF disbursements through October 2017 are $120.3 million below estimates for the first four months of fiscal year 2018 and $907.1 million below expenditures for the first four months of the prior fiscal year. As of October 2017, receipts were 0.1 percent below budget estimates and disbursements were one percent below budget estimates for fiscal year 2018. Fiscal year 2018 receipts are 4.9 percent behind receipts for the first four months of fiscal year 2017. Disbursements for fiscal year 2018 are seven percent below disbursements for the same time period of fiscal year 2017.

*Budget Stabilization Fund*

The Budget Stabilization Fund (BSF) is Ohio's rainy day savings account, a reserve balance set aside in good economic times to protect the State's budget from cyclical changes in revenues and expenditures should the economy become weakened unexpectedly. By law, the maximum balance for the BSF can be up to 8.5 percent of the prior fiscal year's GRF revenues. The BSF continues to maintain a record-high balance of over $2.03 billion, the strongest reserves in State history.

*Workers' Compensation Fund*

The Bureau of Workers' Compensation (BWC) has committed $15 million in fiscal year 2018 to award grants to employers for safety intervention, wellness, and drug-free programs. In addition, BWC plans to spend approximately $12 million on a health and wellness program that targets Ohioans in specific high risk industries, a statewide safety awareness and educational campaign, and programs to help firefighters and those who work with children and adults with disabilities. Since the Disabled Worker's Relief Fund II (DWRF II) had balances at the end of fiscal year 2017 that exceeded reserves for compensation, BWC has no need to assess employers in future periods to fund the current DWRF II estimated liabilities.

*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. In early fiscal year

2017, the State paid off the outstanding balance through voluntary payments and Federal Unemployment Tax Act (FUTA) credits. More information relating to the voluntary payments and FUTA credits can be found in NOTE 2D.

**Contacting the Ohio Office of Budget and Management**

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