Comprehensive Annual Financial Report

For the Fiscal Year ended
June 30, 2018

Dave Yost
Ohio Auditor of State

Auditor of State of Ohio

An Enterprise Fund of The State of Ohio

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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Ohio Auditor of State

Prepared by the Ohio Auditor of State's Office

William Collier, CPA

Chief Financial Officer

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INTRODUCTORY SECTION

Transmittal Letter

September 26, 2018

To the citizens of the State of Ohio:

It is our pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) for the Auditor of the State of Ohio's office (the office). The accuracy and completeness of the presentation of this report is the responsibility of the Auditor of State. To the best of our knowledge, the enclosed data is accurate in all material respects, and is reported in a manner that fairly presents the financial position and operation of the office.

Preparation

The accuracy and completeness of the presentation of this report is the responsibility of the Auditor of State. To the best of our knowledge, the enclosed data is accurate in all material respects, and is reported in a manner that fairly presents the financial position and operation of the office.

This report has been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).The office also follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for presenting the information contained within this report, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Internal Controls

In developing and modifying the office's accounting system, consideration is given to the adequacy of internal accounting controls. Controls have been designed to provide reasonable, but not absolute, assurance for the safeguarding of assets against loss from unauthorized use or disposal, maintaining accountability of assets and the reliability of financial records for preparing financial statements. The development of internal control policies and procedures requires estimates and judgments by management when evaluating the costs of proposed controls versus their expected benefits. The concept of reasonable assurance is based on the assumption that the cost of internal accounting controls should not exceed the benefits to be derived from their implementation. AOS management believes that the office's current internal control structure adequately meets the above objectives without generating excessive costs.

Independent Auditors

As part of the annual preparation of a CAFR, the office subjects all financial statements to an annual independent audit. The independent auditor is selected pursuant to Ohio Revised Code Section 117.14 by an audit committee made up of the governor and the chairs of the Ohio House and Senate Finance Committees. For fiscal year 2018, Rea & Associates, Inc. is the office's independent auditor.

Management's Discussion and Analysis (MD&A)

GASB Statement No. 34 (GASB 34) requires that management provides an introductory overview and narrative, known as the Management's Discussion and Analysis (MD&A), to accompany the basic financial statements. This transmittal letter is intended to complement and be read in conjunction with this analysis. The MD&A can be found immediately following the independent auditor's report.

Profile of the Auditor's Office

Reporting Entity

The Ohio Constitution establishes the executive branch position of Auditor of State. The Auditor is elected by the citizens of Ohio and serves a four-year term with a maximum of two terms. Duties prescribed by state law include chief inspector of all public accounts and public funds, custodian of public land records, in addition to other statutory duties. Specifically, the office audits the financial statements of all public entities and provides technical expertise through consulting and training services.

The Auditor's office is a proprietary operation for purposes of financial reporting. The office charges fees to local governments and state agencies for services provided. Results of the office's operations are reported in a manner similar to the private sector.

The office is divided into seven main divisions: Administrative, Audit, Legal, Ohio Performance Team, Public Integrity Assurance Team, Policy & Legislative Affairs and Public Affairs.

The Administrative Division is responsible for the day-to-day management and policy decisions of the office. It is made up of senior management, support staff and other support sections including finance, human resources, information technology, field operations and the Uniform Accounting Network.

The Audit Division is divided into the Center for Audit Excellence, Financial Audit Group, Local Government Services and Medicaid Contract Audits. As mandated by Chapter 117 of the Ohio Revised Code, the Financial Audit Group performs financial and compliance audits of Ohio's public entities to identify critical issues related to the public entities' financial reporting, legal compliance, systems of internal control, control deficiencies, high-risk investments and irregular or illegal activities. Working from seven regional offices, this group serves all state and local government entities in Ohio.

Under authority of Chapter 117 of the Ohio Revised Code, the **Medicaid Contract Audit Section** identifies and reports incidents of noncompliance with state laws and local regulations. The Section works closely with the Ohio Department of Medicaid, Ohio Attorney General's Medicaid Fraud Unit, U.S. Attorney's Office and the Federal Office of Inspector General.

The Legal Division serves as the legal counsel to the office and houses the Open Government Unit. The Legal Division provides legal expertise to office management and local governments, in addition to providing continuing education to elected officials and government employees through specific training programs and conferences on government issues.

The Ohio Performance Team (OPT) conducts performance audits pursuant to Chapter 117 of the Ohio Revised Code or upon direction of the General Assembly. Pursuant to Section 117.46 of the Ohio Revised Code, the Ohio Performance Team conducts at least four performance audits of state agencies each biennium. Performance audits may also be conducted for any school district or local government entity (counties, townships, villages, etc.) that has been designated as being in a state of fiscal caution, watch or emergency, pursuant to Section 3316.031 and Chapter 118 of the Ohio Revised Code. Performance audits typically identify and help correct inefficient managerial operations and the waste of taxpayer dollars, while providing general oversight and advice to ensure efficient operation of public offices and the maximization of taxpayer dollars.

Policy and Legislative Affairs serves as a link between the Auditor of State's office and the Ohio General Assembly. They communicate the needs of the office to state legislators to help them make well-informed decisions on legislation impacting the office.

Public Affairs is responsible for all internal and external communications and publications for the Auditor of State's office. The division also serves as a liaison between the office and the news media.

Basis of Accounting

For accounting and control purposes, the financial activity of the office is organized on a fund basis. Each fund is a distinct, self-balancing set of accounts. Daily accounting transactions are recorded by the State Office of Budget and Management (OBM) as part of the Ohio Administrative Knowledge System (OAKS), which operates on a modified accrual basis. For purposes of preparing GAAP basis financial reports, individual funds are consolidated into one proprietary fund, and financial transactions are converted to the accrual basis of accounting. Under the accrual basis of accounting, the office recognizes revenue when earned and expenses when incurred.

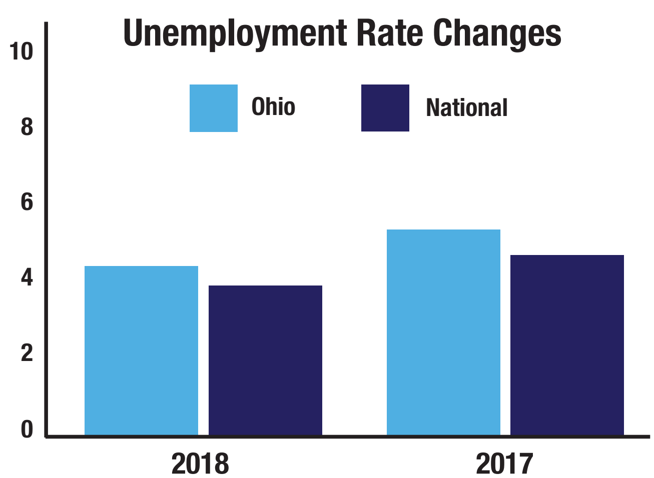
Budgetary Controls

Ohio's bicameral legislature, the General Assembly, authorizes expenditures by appropriating funds in biennial and supplemental appropriation acts. The appropriations are set at the major account level within each fund. The major account levels are Personal Services (salaries and benefits) and Maintenance (operating costs). The Office of Budget and Management (OBM) uses OAKS to control the obligations by department by checking availability of funds prior to accepting purchase orders or making payments by voucher. Purchase orders or vouchers that exceed appropriations are rejected until additional appropriation authority is secured. In addition, purchase orders and vouchers are submitted with documentation to OBM upon their request for careful examination to ensure proper use of funds.

The office has established an internal budget to allocate the appropriations between divisions, departments and regional offices. Each internal budget is monitored by the finance department so the amount expended does not exceed the budget. Internal policy requires changes to this budget be approved by division chiefs and the Chief Financial Officer. The finance department provides various financial management reports to division chiefs, regional chief auditors and department heads on a regular basis. Included in these management reports are current month expenditures with a detailed transaction listing, as well as a comparison of year-to-date spending versus appropriated amounts. Purchase orders must be reviewed and approved by the finance department to ensure availability and proper use of funds. Invoices also must be approved by the purchasing authority prior to payment.

Economic Conditions and Outlook

Ohio's unemployment rate was 4.5 percent in June 2018, a decrease from a rate of 5.4 percent in 2017. The national unemployment rate for June 2018 was listed at 4 percent, a decrease from the 4.4 percent reported for June 2017.



Major Initiatives

Unsupported Medicaid Payments

Examinations of payments to high-risk Medicaid providers revealed more than $33.3 million in improper or unjustified fees had been paid in the past seven years. Of that amount, those providers repaid only a fraction of the dollars they owe to the state. A special report, Ohioans at Risk: Noncompliance in Ohio's Medicaid Program Poses Dangers, Wastes Tax Dollars, led to newly proposed legislation requiring providers to post a surety bond to allow Ohio to recover some of the money.

Stopping Theft of Funds

In the past decade, unethical public employees have taken advantage of control weaknesses in their local government to steal millions of dollars of payments made by taxpayers for things such as water bills, facility rentals and taxes. A report, Pocketed Payments: Preventing the Theft of Incoming Funds, offers best practices for handling incoming payments to help local government leaders better understand their vulnerabilities and create stronger safeguards to protect public funds.

Credit Card Abuse

Credit cards provide governmental entities with convenience, but they also create problems when there are no controls over their use. A study of credit card theft and misuse, released in fiscal year 2018, found that at least $ 1.2 million has been stolen or misspent by local governments in Ohio through credit card abuse. The study led to a push by this office to create reforms to discourage this type of abuse.

Avoiding and Alleviating Fiscal Distress

Conditions beyond the control of local government officials sometimes cause an entity to fall into fiscal emergency. Our office's Local Government Services team works with distressed governments to help them regain their financing footing. Using the experiences of entities that have gone through the recovery process, the office issued a report in fiscal year 2018 offering guidance to those officials who find themselves in this situation.

Financial Audits

Completion of high-quality financial audits in a timely fashion continues to be a top priority for the office. Financial statement audits provide governments with a way to demonstrate to taxpayers that they have been financially accountable and have complied with laws governing the use of taxpayer funds.

The Office released 4,523 financial audit reports from July 1, 2017 through June 30, 2018, which included traditional financial and compliance audits, agreed- upon procedure (AUP) engagements and basic audits performed by both the office and Independent Pubic Accounting (IPA) firms. In 232 of these audit reports, auditors issued findings for recovery totaling $3,824,339.

The office and contracted IPAs began auditing the financial statements filed via the Office's online Hinkle System during fiscal year 2016. The Hinkle System is an internet-based application that allows certain financial statement, debt and demographic data to be entered, uploaded and transmitted to the office, satisfying the filing requirements prescribed by the Ohio Revised Code and Ohio Administrative Code.

During fiscal year 2018, financial statements from 5,307 entities were filed through the Hinkle System, representing approximately 96 percent of the entities required to file reports during the year. The Hinkle System increases uniformity in financial reporting and allows for expanded use of the financial data that is submitted, including using the data for the Financial Health Indicators for counties and cities.

Local Government Services

The Local Government Services (LGS) Section serves as a consulting and fiscal advisory group to all governmental agencies and subdivisions. It provides an array of services including financial forecasts, GAAP conversion assistance, annual financial report processing, record reconstruction and reconciliation, fiscal caution, fiscal watch and emergency assistance, merger and dissolution assistance, and financial management training for elected officials. LGS also distributes publications such as accounting manuals and policy bulletins to assist local governments in performing their duties and to keep them up to date on their statutory and accounting requirements.

During the past fiscal year, LGS assisted local governments in the preparation of 303 annual financial reports. This included 54 CAFRs, 166 Basic Financial Statements (BFS) 21 supervision engagements (both CAFR and BFS) and 62 cash basis statements. In addition, among other projects, LGS responded to 157 fund requests and 1,808 inquiries on various issues from local governments.

LGS served as fiscal supervisor to 34 entities in fiscal emergency, providing financial counsel to both the local governments and the oversight commission in recovery efforts. The section assisted in the release of six municipalities and one township from fiscal emergency.

In addition, LGS staff assisted with Auditor of State responses to five GASB Exposure Drafts. The section updated regulatory and Other Comprehensive Basis of Accounting financial statement shells and notes. LGS also updated Web–GAAP, an internet based software, which was modeled after the LGS spreadsheet approach, to assist local governments in the implementation of GASB 75. The software is designed to accommodate schools, counties and cities.

LGS also produced a number of publications, including the Village Officer's Handbook, the Ohio Township Handbook, the Ohio County Treasurer's manual, the Ohio County Sheriff's manual, and the Student Activities Handbook.

Medicaid Contract Audits

The Medicaid Contract Audit Section (MCA) is dedicated to ensuring that Ohio's Medicaid dollars are not abused or wasted. The Medicaid Contract Audit Section employs 21 professionals with statewide jurisdiction to audit Medicaid providers. The work performed by these individuals combats fraud, waste and abuse, identifies improper Medicaid payments, and improves the integrity and cost-effectiveness of the Medicaid program. MCA also participates in a number of interagency Medicaid program integrity groups and the Ohio Healthcare Investigators Organization, both of which focus on combating fraud, waste and abuse in Ohio.

The MCA Section performs work under a letter or arrangement with the Ohio Department of Medicaid (ODM). This work includes compliance examinations of Medicaid providers and data mining activities that identify risk areas for fraud, waste, and abuse.

The MCA section also performs work under interagency agreements with the Ohio Department of Development Disabilities and ODM. This includes agreed-upon procedures to test the cost reports submitted by county boards of developmental disabilities (CBDDs), council of governments (COGs), as well as intermediate care facilities for individuals with intellectual disabilities (ICFs), which include state-operated developmental centers and PASSPORT administrative agencies. In addition, MCA performs agreed-upon procedures to test payments made to eligible providers implementing electronic health records in the Medicaid Provider Incentive Program (MPIP).

During fiscal year 2018, the office released 24 Medicaid provider compliance examinations and identified more than $ 11.5 million in overpayments. The MCA section also released three AUP reports on CBDD cost reports, identifying adjustments totaling more than $324,000 in non-federal reimbursable costs, and 36 CBDD reports on compliance with Medicaid administrative claiming requirements. The section released another 19 reports on ICFs, which identified more than $32,000 in overpayments. In addition, the section released 10 PASSPORT and 236 MPIP reports. Overall, MCA produced 328 reports and identified more than $11.8 million in improper payments.

In February 2018, the Auditor of State released a special report, Ohioans At Risk: Noncompliance in Ohio's Medicaid Program Poses Dangers, Wastes Tax Dollars, which highlighted the $33.3 million in Medicaid improper payments identified in the MCA section since 2011. In addition, MCA analyzed the impact of the opioid crisis on Ohio's Medicaid Program, identifying trends in the diagnosis of opioid related illnesses and the impact on service delivery. The section continues to participate in an initiative with other state auditors' offices, the Governmental Accountability Office, and the Centers for Medicaid and Medicare Services, to expand the role of state auditors in identifying improper Medicaid payments and implementing recommendations to improve the program's system of controls.

Ohio Performance Team

ORC 117.46 (enacted in 2011) requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. This was later amended to include public institutions of higher education. In fiscal year 2018, OPT launched a performance audit of The Ohio State University which will be completed early in the current biennium. Performance audits were also released for one city, 10 school districts, one township and one public library generating recommendations to reduce costs by $15.5 million.

Ohio law authorizes the Auditor of State to conduct performance audits of any school district that is in fiscal distress or trending towards fiscal distress. The goal is to help improve the cost-effectiveness of operations and resolve financial difficulties. The Auditor of State also conducts performance audits upon request by school districts seeking feedback on operations and ideas for cost savings and service improvement.

Ohio law also authorizes the Auditor of State to conduct performance audits of local governments in fiscal watch or fiscal emergency, with the aim of eliminating financial problems and improving efficiency and effectiveness. As with school districts, the Auditor of State also conducts performance audits upon request by local governments.

In 2016, Gov. John Kasich signed House Bill 5 into law, allowing local governments and state agencies to request feasibility studies from the Auditor of State's office. On April 18, Auditor Yost released the results of the first study, which outlined ways in which several Belmont County school districts could achieve savings and increase efficiency by sharing school-bus facilities and maintenance resources. The studies are selected through an application process. The cost is covered by a grant program established by the Legislature and funded by the Auditor's Leverage for Efficiency, Accountability and Performance (LEAP) Fund.

In December 2016, the Ohio General Assembly approved a provision in Senate Bill 3 requiring the Auditor of State to conduct an operational review of the state's 52 educational service centers within three years. The study is under way.

Center for Audit Excellence

The Center for Audit Excellence (CFAE) is responsible for monitoring changes to generally accepted auditing standards and accounting principles, as well as changes to federal grant regulations and Ohio law. This includes developing guidelines and training so all Auditor of State employees are up-to-date on these standards, regulations and laws. The group also is charged with ensuring all audits, including audits that IPA firms conduct on behalf of the Auditor of State, comply with these auditing and accounting standards.

CFAE accomplished a great deal during fiscal year 2018. CFAE facilitated the triennial external peer review, administered contracts with IPA firms and certified approximately 1,831 IPA reports. The Center also performed approximately 60 working paper reviews of IPA firms, completed four internal regional reviews, managed the Hinkle Annual Financial Data Reporting System (Hinkle System) for submission of annual financial statements/data, and provided guidance via publications, practice aids, consultations and internal and external training. Additionally, the executive summary portal was updated, enhancing the office's ability to query and report on audit statistics for various entity types. The application was completed and will be rolled out shortly.

In fiscal year 2018, the office's system of quality control and compliance, used in conducting audits in accordance with GAGAS-was reviewed during the mandatory triennial peer review by the National State Auditors Association. The system encompasses the office's organizational structure, the policies adopted and the procedures established to provide reasonable assurance of performing and reporting in conformity with professional standards in all material respects. Representatives from numerous states and the federal government conducted the review, and the Ohio Auditor of State's Office again received the highest possible ranking.

The group revised guidance, procedures and practice aids, as necessary, for use in financial audits, attestation engagements, and other engagement types, to ensure these were completed in accordance with applicable professional standards. In addition, several new practice aids were developed to assist auditors in effectively and efficiently performing their work. CFAE also prepared and presented multiple trainings throughout the state to educate participants within the office, IPAs, local governments and other state agencies on current and upcoming accounting and auditing standards. CFAE published its annual update to the Ohio Compliance Supplement (OCS), in collaboration with the Legal Division and Auditor of State administration. The OCS includes a summary of the legislative and regulatory requirements affecting various local government entity types. The OCS includes a summary of the legislative and regulatory requirements affecting various local government entity types. The OCS provides staff and IPA auditors with a summary of the laws and regulations, as well as suggested audit procedures the Auditor's office believes may be significant to Ohio local government audits.

During fiscal year 2018, the CFAE was also asked to examine ways to help retain and strengthen staff for the future. As part of this process, CFAE revamped new hire and sponsorship training programs, creating five introductory webinars and 18 new hire sponsorship webinars.

The reporting of the third year pension information in accordance with GASB 68 provided additional complexities that generally were not issues in the year of implementation. CFAE developed and presented a detailed training on GASB 68 for audit staff during its regional trainings and provided training for IPAs. CFAE conducted training on Other Post-Employment Benefits (GASB 75) standards both within the office and for IPAs.

Independent Public Accountants (IPAs)

From July 1, 2017 through June 30, 2018, the Auditor's office released 1,831 financial audit reports performed by IPAs, including 1,445 traditional financial audits and 386 AUP engagements.

IPA firms interested in bidding on financial audits must register in the IPA portal, an internet-based application, and be approved by the Auditor of State's office. Currently, there are 82 active IPA firms registered with the office.

The IPA portal allows firms to express interest in audit contracts, view bid requests, update firm information, view their scores and report status, view client details and Hinkle System filings, process client invoices, and process client contract modifications.

Public Integrity Assurance Team

In May 2015, Auditor Yost launched the Public Integrity Assurance Team (PIAT). The team serves as a link between the office and the law enforcement community. PIAT brings to the office a single source for investigating fraud in government. The statewide team is currently comprised of 12 investigators, 12 forensic auditors and two attorneys who combine investigative, special auditing and legal specialties into one cohesive team. PIAT has collaborated with federal, state and local law enforcement agencies in cases across the state of Ohio.

Information Technology

Information Technology (IT) develops and maintains the technology used in the office. A significant number of Auditor of State employees regularly work off-site, so it is vital that they have convenient and timely access to the office's computer network. The IT department ensures that the office's computer systems function properly and all employees are able to access the information they need to efficiently perform their duties.

During fiscal year 2018, the IT department completed the following projects:

• To assess the office's cybersecurity, IT contracted with a firm to launch a simulated cyber attack;
• Acquired a vulnerability scanner to perform in-house cybersecurity assessments;
• Promoted cybersecurity awareness among staff with simulated phishing emails;
• Developed a mobile application for staff to submit travel reimbursement requests by phone;
• Created and tested a new application for timesheet submission;
• Streamlined the application auditors use to report findings for recovery.

Training

In an effort to reduce travel and training costs during fiscal year 2018, the office again offered audit staff unlimited governmental and professional CPE through Becker webinars.

In August 2017, the office hosted the annual Community School Conference, featuring speakers from within the office and Ohio Department of Education. More than 200 community school professionals, sponsors and operators attended the conference, which focused on funding, reporting, legal and legislative issues. In October, the office hosted its third All-Staff Training in Columbus for more than 750 employees. Staff received updates in areas of professional and personal development, and gained six CPE hours. The following day, 300 audit managers received an additional six hours of CPE. Also in October, more than 400 fiscal officers attended the Village Fiscal Officers and Clerks Training. There were five regional trainings focusing on the Hinkle System, Ohio Public Employment Retirement System requirements, common audit issues and legal matters to help them better serve their communities.

In January 2018, the office collaborated with the Department of Administrative Services to administer an on-demand sexual harassment webinar for staff. All employees successfully completed the webinar by the April deadline. In late March, more than 600 public officials attended the 19th Local Government Officials Conference in Columbus. In May, the office co-sponsored the 18th Emerging Trends in Fraud Investigation and Prevention Conference with the Central Ohio Chapter of Certified Fraud Examiners and the Ohio Attorney General's office. The conference trained more than 600 law enforcement officials, investigators, accountants and attorneys on the latest trends in the field. The Training section also administered 25 Certified Public Records Trainings (House Bill 9 seminars) across Ohio. The program has trained more than 1,700 professionals and public officials, such as fiscal officers and attorneys.

This past year, the Training section implemented a standardized schedule for two-day trainings for newly hired assistant auditors. The introductory course is designed to provide guidance on governmental accounting standards to audit staff. The trainings are held in March, July, and October every year.

Uniform Accounting Network (UAN)

The Uniform Accounting Network is a financial management system designed specifically for Ohio's local governments. The program is administered by the Auditor of State and provides townships, villages, libraries, special districts and a city with a complete computer system (hardware and software), along with training and support.

The UAN application comprises five modules: Accounting, Payroll, Budget, Inventory and Cemetery. The Auditor of State's office provides training on the five modules to fiscal officers in our Columbus office, online and on-demand.

UAN has increased its client base in the past year from 1,948 to 1,994 local governments.

Financial Information

Cash Management: The Treasurer of State is responsible for the cash management of the State of Ohio. The Treasurer is also responsible for investing all State of Ohio funds. Interest earned by the Treasurer of State is allocated to the State General Revenue Fund and all other qualifying funds as prescribed by the Ohio Revised Code. The office does receive interest income on the Leverage for Efficiency, Accountability and Performance (LEAP) Fund under the Treasurer's control.

Debt Administration: During fiscal year 2018, and as of June 30, 2018, the office had no outstanding debt issues (i.e. bonds).

Pension Plans: The office and all its employees contribute to the Ohio Public Employees Retirement System (OPERS). It is a statewide cost-sharing, multi-employer defined benefit plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying service credit. Health care coverage for disability recipients is also available. Additional disclosures are provided in Notes 5 and 6 to the basic financial statements.

Risk Management: The State of Ohio's Department of Administrative Services (DAS) oversees the risk management of the State of Ohio. As discussed in Note 9 to the basic financial statements, the State retains the risks associated with claims arising from the State's health care plan (Ohio Med PPO), vehicle liability, property loss and tort liability. The office pays premiums through employer and employee payroll charges for health care. Additionally, the office is responsible for the replacement of equipment that may be lost or damaged as a result of the operations of the office. The DAS also maintains a public employee blanket fidelity bond issued through a private carrier for employees and individual faithful performance bonds for the Auditor of State and Chief Deputy Auditor.

Other Information

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Auditor of State of Ohio for its CAFR for the fiscal year ended June 30, 2017. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR that conforms to program standards. Such CAFRs must satisfy both accounting principles generally accepted in the United States of America, as well as applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments: We would like to thank the staff whose time and dedication have made this effort possible. We are committed to ensuring the financial accountability of the office, as we set an example for all the entities we audit.

Sincerely,

Dave Yost

Dave Yost
Auditor of State

William Collier

William Collier, CPA
Chief Financial Officer

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Auditor of the State of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

STATE ELECTED OFFICIAL

Ohio Auditor of State

Dave Yost

ORGANIZATIONAL CHART

Dave Yost
Ohio Auditor of State

Administrative Division
Finance
Human Resources
Information Technology
Uniform Accounting Network

Audit Division
Financial Audit
Center for Audit Excellence
Medicaid Contract
Local Government Services

Legal Division
Open Government Unit

Ohio Performance Team

Public Integrity Assurance Team

Policy & Legislative Affairs

Public Affairs Division
Regional Liaisons

Appointed Officials

Chief of Staff .... Brenda Rinehart
Chief Deputy Auditor .... Robert Hinkle
Director of Policy .... Shawn Busken
Senior Policy Advisor .... Carrie Bartunek
Director of Communications .... Ben Marrison
Chief Legal Counsel .... Mark Altier
Director of Ohio Performance Team .... Scott Anderson
Director of Public Integrity Assurance Team .... Mark Porter

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FINANCIAL SECTION

Rea & associates a brighter way

September 26, 2018

To the Office of the Auditor of State and the Audit Committee
Office of the Auditor of State of Ohio
Franklin County, Ohio
88 East Broad Street
Columbus, OH 43215

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Auditor of State of Ohio (the Office), a Department of the State of Ohio, Franklin County, Ohio, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of the Auditor of State of Ohio, Franklin County, Ohio, as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Office of the Auditor of State of Ohio
Independent Auditor's Report
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Emphasis of Matter

As discussed in Note 1, the basic financial statements of the Office are intended to present the financial position, the changes in financial position, and cash flows of only the portion of the business-type activities included within the nonmajor enterprise funds of the State of Ohio that is attributable to the transactions of the Office. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2018, the changes in financial position, or, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 12, the Office restated beginning net position to account for the implementation of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Auditor of State of Ohio Proportionate Share of the Net Pension Liability, Schedule of Auditor of State of Ohio Contributions-Net Pension Liability, Schedule of Auditor of State of Ohio Proportionate Share of the Net OPEB Liability, Schedule of Auditor of State of Ohio Contributions-Net OPEB Liability* on pages 20–24, 52, 53, 54 and 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Office's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Office's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

This discussion and analysis of the Auditor of the State of Ohio's Office (the Office) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Office's financial performance as a whole. Readers should review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Auditor of State's financial position.

Key Financial Highlights

- Total Net Deficit Position increased $13,379,411.
- Total Assets decreased $12,093,550 or 21 percent from fiscal year 2017. Decreases in cash and cash equivalents, appropriations receivable, loans receivable, and capital assets were attributable to the decrease.
- Total Liabilities decreased by $28,034,482 or 20 percent from fiscal year 2017 largely attributable to decreases in net pension liability and workers compensation.
- Total Revenues decreased by $9,375,351 or 12 percent from fiscal year 2017 due to a significant decrease in state appropriations and a slight decrease in total billable hours in funds 109 and 422 for state and local government clients.
- Total Expenses decreased $9,528,062 or 10 percent from fiscal year 2017. Decreases in personal services and maintenance were due to a significant decreases in workers compensation and GASB 68 related pension expense, and no Uniform Accounting Network (UAN) computer purchases in fiscal year 2018. Depreciation expense also decreased in fiscal year 2018.

Using this Annual Report

This comprehensive annual financial report is divided into three parts: the introduction; the financials which include this discussion & analysis, the basic financial statements, the notes to the basic financial statements; and statistical information. The basic financial statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position reports information on the Office's assets, deferred outflow of resources, liabilities, and deferred inflows of resources with the difference between these items reported as Net Position. Over a period of time, increases or decreases in Net Position are useful indicators of the financial position of the Office.

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The following schedule provides a summary of the Office's Net Position as of June 30, 2018 as compared to June 30, 2017:

Schedule 1: Comparison of Net Position as of June 30

	2018	2017 (Restated)
ASSETS		
Current Assets	$43,662,919	$48,840,570
Non-Current Assets		
» Capital Assets, net of accumulated depreciation	938,461	1,193,477
» Appropriations Receivable	29	6,660,912
Total Assets	**$44,601,409**	**$56,694,959**
Deferred Outflows of Resources		
» OPERS	10.822,767	29,077,555
» OPEB	3,202,495	195,669
Total Deferred Outflows of Resources	**$14,025,262**	**29,273,224**
LIABILITIES		
Current Liabilities	$7,203,909	$7,898,024
Non-Current Liabilities		
» Workers Compensation	29	6,660,912
» Compensated absences	8,107,811	8,156,902
» Net Pension Liability	55,589,233	79,435,221
» Net OPEB Liability	39,037,965	35,822,370
Total Liabilities	**$109,938,947**	**$137,973,429**
Deferred Inflows of Resources		
» OPERS	13,030,710	1,866,397
» OPEB	2,908,068	0
Total Deferred Inflows of Resources	**15,938,778**	**$1,866,397**
NET POSITION		
Net Investment in Capital Assets	$938,461	$1,193,477
Restricted Net Position	842,520	843,637
Unrestricted Net Position	(69,032,035)	(55,908,757)
Total Net Position	**$(67,251,054)**	**$(53,871,643)**

Total assets of the office decreased $12,093,550 or twenty one percent as of June 30, 2018. Decrease largely related to decreases in Appropriation Receivable and Cash and Cash Equivalents. The decrease in Appropriations receivable is a result of the State of Ohio's significant reduction in the fiscal year 2018 Bureau of Workers Compensation (BWC) obligation. The State's fiscal year liability decreased forty six million dollars. As a result, the Office's workers compensation contribution total blended rate was again significantly reduced in fiscal year 2018. The Cash and Cash Equivalent decrease is largely attributable to expenses exceeding revenues in the local government fund.

The significant decrease in total Deferred Outflow of Resources- OPERS in fiscal year 2018 was due to a significant reduction in the net difference between projected and actual earnings on pension plan investments related to the office's net pension liability.

Total liabilities decreased $28,034,482 or twenty percent from fiscal year 2017 largely attributable to decreases in net pension liability and workers compensation. The net pension liability decrease represents the office's proportionate share of the traditional plan's unfunded benefits. Changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability. In fiscal year 2018, pension expense decreased and higher than expected investment returns had an impact on the liability. The total liability increase was slightly offset by the OPEB liability due to the office's implementation of GASB 75. In addition, wages payable and benefits payable also increased in fiscal year 2018 due to negotiated general wage increase, step and longevity increases, and increased health insurance costs.

The net pension liability (NPL) is the largest single liability reported by the Office at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Office adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Office's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OBEP liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Office's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Office is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Office's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Office is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from $(18,244,942) to $(53,871,643).

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position provides information about the financial status of the Office at year end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities over the course of the fiscal year and information as to how the Net Position changed during the year. This change, combined with the prior year net position total reconciles to the total Net Position at the end of this fiscal year.

Schedule 2 below shows revenue, expense and changes in Net Position for the fiscal year ended June 30, 2018, in comparison to the fiscal year ended June 30, 2017:

Schedule 2: Change in Net Position

	2018	2017 (Restated)
OPERATING REVENUES		
Charges for Services – Local	$36,154,946	$36,956,336
Charges for Services – State	9,513,450	9,609,197
Other	394,264	387,917
NON-OPERATING REVENUES		
Gain on Sale of Capital Assets	0	2,579
Investment Income	15,559	11,566
State Appropriations	22,117,461	30,603,048
Total Revenues	**$68,195,680**	**$77,570,643**
OPERATING EXPENSES		
Personal Services	75,972,532	83,139,543
Maintenance	5,309,341	7,656,835
Depreciation	292,830	306,387
NON-OPERATING EXPENSES		
Loss on Sale of Capital Assets	388	0
Total Expenses	**$81,575,091**	**$91,102,765**
Change in Net Position	**($13,379,411)**	**($13,532,122)**
Beginning Net Position	**(53,871,643)**	**(4,712,820)**
Restatement of Net Position - See Note 12	**0**	**(35,626,701)**
Ending Net Position	**$(67,251,054)**	**$(53,871,643)**

Total revenue decreased by $9,374,963 or twelve percent from fiscal year 2017 largely attributable to a significant decrease in state appropriations which was directly related to the workers compensation liability decrease. In addition, there were also slight decreases in total billable hours in funds 109 and 422 in fiscal year 2018.

Total Expenses decreased by $9,527,674 or 10 percent from fiscal year 2017. The decrease in personal services was related to a significant decrease in workers compensation and GASB 68 related pension expense. Maintenance decrease was the result of the no computer purchases for Uniform Accounting Network (UAN) clients in fiscal year 2018. UAN purchased computers for approximately 1,948 clients in fiscal year 2017.

Capital Assets

At June 30, 2018, the Office had invested $938,461, net of accumulated depreciation, in various classes of capital assets. This represents a decrease of 21 percent in net capital assets from fiscal year 2017. This decrease was due to annual depreciation expense exceeding current year additions.

Depreciation expense for fiscal year 2018 totaled $292,830 (see Schedule 2 above). This figure represents a decrease of approximately four percent over fiscal year 2017.

The Schedule below provides a summary of capital assets as of June 30, 2018 and 2017:

Schedule 3: Capital Assets

	2018	2017
Computer Equipment	$1,416,594	$1,436,553
Office Equipment	654,015	697,823
Furniture and Fixtures	233,283	242,216
Large Internal Software Projects	1,424,498	1,424,498
Subtotal	**$3,728,390**	**$3,801,090**
Accumulated Depreciation	(2,789,929)	(2,607,613)
Net Capital Assets	**$938,461**	**$1,193,477**

For more information regarding capital assets, see Notes 1 and 4 of the notes to the basic financial statements.

Contacting the Auditor's Office

This financial report is designed to provide the citizens of the State of Ohio with a general overview of the Auditor of State's finances and to show accountability for the monies it receives. If you have any questions about this report or need additional financial information, please contact Kim Eckert, Director, Department of Finance, 88 East Broad Street, 4th Floor, Columbus, Ohio 43215, (800) 282-0370.

BASIC FINANCIAL SECTION

ASSETS	
Current Assets	
» Cash and Cash Equivalents	$34,762,981
» Restricted Cash and Cash Equivalents	842,520
» Accounts Receivable (net of allowance for doubtful accounts)	5,200,378
» Intergovernmental Receivable	1,333,568
» Other Receivable	15,706
» Appropriations Receivable	1,507,766
Total Current Assets	**$43,662,919**
Non-Current Assets	
» Capital Assets, net of accumulated depreciation of $2,789,929	$938,461
» Appropriations Receivable	29
Total Non-Current Assets	**938,490**
Total Assets	**$44,601,409**
Deferred Outflows of Resources	
Pension: OPERS	10,822,767
Pension: OPEB	3,202,495
Total Deferred Outflows of Resources	**$14,025,262**
LIABILITIES	
Current Liabilities	
» Accounts Payable	$169,187
» Wages Payable	3,041,379
» Due to Other Governments	50,692
» Benefits Payable	1,306,543
» Health Benefits Payable	103,243
» Compensated Absences Payable	1,764,418
» Unearned Revenue	768,447
Total Current Liabilities	**7,203,909**
Non-Current Liabilities	
» Workers' Compensation Liability	$29
» Compensated Absences Payable	8,107,811
» Net Pension Liability (see Note 5)	55,589,233
» Net OPEB Liability (see Note 5A)	39,037,965
Total Non-Current Liabilities	**102,735,038**
Total Liabilities	**109,938,947**
Deferred Inflows of Resources	
Pension: OPERS	13,030,710
Pension: OPEB	2,908,068
Total Deferred Inflows of Resources	**$15,938,778**

NET POSITION	
Net Investment in Capital Assets	$938,461
Restricted Net Position for:	
» Accrued Leave	842,520
Unrestricted Net Position	(69,032,035)
Total Net Position	**$(67,251,054)**

The accompanying Notes are an integral part of these Basic Financial Statements.

For the Fiscal Year ended June 30, 2018

OPERATING REVENUES	
Charges for Services - Local	$36,154,946
Charges for Services - State	9,513,450
Other	394,264
Total Operating Revenues	**$46,062,660**
OPERATING EXPENSES	
Personal Services	75,972,532
Maintenance	5,309,341
Depreciation	292,830
Total Operating Expenses	**$81,574,703**
Operating Loss	(35,512,043)
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	15,559
Loss on Sale of Capital Assets	(388)
State Appropriations	22,117,461
Total Non-Operating Revenues	**$22,132,632**
Change in Net Position	**(13,379,411)**
Total Net Position - Beginning of Fiscal Year (Restated - see Note 12)	(53,871,643)
Total Net Position - End of Fiscal Year	**$(67,251,054)**

The accompanying Notes are an integral part of these Basic Financial Statements.

For the Fiscal Year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Recieved From Charges for Services - Local	35,611,795
Cash Recieved From Charges for Services - State	9,183,479
Cash Recieved From Other Sources	394,264
Cash Restricted for Compensated Absences	(1,117)
Cash Payments for Personal Services	(74,385,247)
Cash Payments for Maintenance	(5,282,320)
Net Cash Used for Operating Activities	**$(34,479,146)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Appropriations	29,117,496
Net Cash Provided by Non-Capital Financing Activities	**$29,117,496**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(33,256)
Net Cash Used for Capital and Related Financing Activities	**$(33,256)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	15,559
Net Cash Provided by Investing Activities	**$15,559**
Net Decrease in Cash and Cash Equivalents	(5,379,349)
Cash and Cash Equivalents at Beginning of Year	40,984,850
Cash and Cash Equivalents at End of Year	**$35,605,501**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	$(35,512,043)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	292,830
(Increase)/Decrease in Assets:	
» Allowance for Doubtful Accounts	(132,140)
» Accounts Receivable	(234,296)
» Intergovernmental Receivable	(329,971)
» Loans Receivables	99,999
» Other Receivables	55,558
» Deferred Outflow	12,299,916
Increase/(Decrease) in Liabilities:	
» Accounts Payable	(105,496)
» Wages Payable	82,358
» Benefits Payable	59,751
» Health Benefits Payable	(362,623)
» Due to Other Governments	9,682
» Workers' Compensation Payable	(6,765,066)
» Net Pension Liability	1,209,017
» Net OPEB Liability	2,117,063
» Compensated Absences Payable	(50,925)
» Unearned Revenue	(276,714)
» Deferred Inflow	(6,936,046)
Total Adjustments	**1,032,897**
Net Cash Used for Operating Activities	**$(34,479,146)**
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION	
Cash and Cash Equivalents	$34,762,981
Restricted Cash and Cash Equivalents - Current	842,520
Total Cash and Cash Equivalents at Year End	**$35,605,501**

The accompanying Notes are an integral part of these Basic Financial Statements.

Note 1 — Significant Accounting Policies

A. Reporting Entity

The Auditor of State of Ohio (Auditor) is an elected official and is primarily the chief inspector and supervisor of Ohio's public offices. The Auditor's Office (Office) is responsible for conducting audits of the financial records of local political subdivisions, state agencies and private institutions, associations, boards and cooperatives receiving public funds including federal and state grants provided to state agencies and local governments. The Office is also responsible for promulgating and interpreting accounting rules for local governments; training certain local government finance officers; and serving as the custodial holder of all land deeds for the State of Ohio, as well as other functions mandated by Ohio law.

The accompanying financial statements report the financial position as of June 30, 2018 and results of operations and cash flows for the fiscal year ended June 30, 2018. The Office is a department of the primary government of the State of Ohio and is a proprietary operation for purposes of financial reporting. The accompanying financial statements are not intended to present the financial position, changes in financial position, or cash flows of the State of Ohio taken as a whole. The financial information presented herein for the Office will be incorporated into the State of Ohio's financial statements.

The State of Ohio's Comprehensive Annual Financial Report (CAFR) provides more extensive disclosures regarding the significant accounting policies of the State as a whole. The financial statements of the Auditor are intended to present the financial position and changes in financial position and cash flows of business-type activities and remaining fund information of the State that is attributable to the transactions of the Office.

The significant accounting policies followed in preparation of these financial statements are summarized below. These policies conform to Accounting Principles Generally Accepted in the United States of America (GAAP) for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Fund Accounting

In order to observe the restrictions placed on the use of funds, the Office follows the principles of fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts.

C. Proprietary/Enterprise Fund Type

The Office operates as an enterprise fund, a form of proprietary fund that is financed and operated in a manner similar to private business enterprises. An enterprise fund is used to report any activity for which a fee is charged to external users of the goods and services provided. Proprietary funds distinguish between operating and non-operating items.

D. Classification of Expense and Revenue

The Office classifies its expenses as either operating or non-operating. Operating expenses result from providing goods and/or services related to the principal ongoing operation of the Office. These expenses include personal services, maintenance and depreciation. Non-operating expenses are expenses not classified as operating and are not related to the principal operations of the Office.

The Office also classifies its revenue as either operating or non-operating. Operating revenue includes activities that have the characteristics of exchange transactions including charges for services for local and state government entities. Non-operating revenue includes activities that have the characteristics of non-exchange transactions, such as most State and local grants, and appropriations.

E. Basis of Accounting and Measurement Focus

The financial statements are prepared and presented on the accrual basis of accounting. Accrual accounting records the financial effects of transactions, events, and circumstances in the periods in which they occur rather than in the periods in which cash is received or paid by the organization. Revenues are recognized when earned, and expenses recognized when incurred, if measurable. Unbilled charges for services are recorded as revenues at year-end.

The Office utilizes an economic resource measurement focus, which emphasizes the determination of net income, financial position and cash flows. Under this measurement focus, operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in Net Position.

F. Cash and Cash Equivalents

The Treasurer of the State of Ohio (Treasurer) acts as the custodian of the funds for the State. Cash and Cash Equivalents of the Office are pooled and invested by the Treasurer. Account integrity is maintained through a series of checks and balances with the Auditor, Treasurer, and the Office of Budget and Management. The Auditor's Cash and Cash Equivalents consist of $34,762,981 with the Treasurer.

The Cash and Cash Equivalents with the Treasurer has the general characteristics of a demand deposit account whereby additional cash can be deposited at any time and can also be effectively withdrawn at any time, within certain budgetary limitations, without prior notice or penalty.

G. Restricted Cash and Cash Equivalents

The Office has $842,520 in Restricted Cash and Cash Equivalents belonging to Compensated Absences. See Note 7 for more information on Compensated Absences.

H. Accounts and Other Receivables

The Office charges local governments for audit expenses and accounting services. The billings are recorded as accounts receivable when services are provided. Accounts receivable are tracked through the Auditor's payroll and billing system. As payroll is submitted, the hours worked by each employee, by engagement, are recorded and the hours are tracked by the billing system to charge the entity for the services performed. Most of the charges billed by the Office are considered fully collectible since State law allows the Office to certify outstanding balances to the Director of Budget and Management (OBM) for collection.

However, there are a certain number of entities that because of their financial condition or closure are unable to pay their full invoices, and consequently outstanding balances are either certified to the Ohio Attorney General's Office or a request is sent to the entity asking them to enter into a monthly payment plan with the Office. If the entity refuses to enter into a payment plan or it is determined that the outstanding balance amount is uncollectible through the certification process, portions of the outstanding balance may be written off as uncollectible with the approval of the Attorney General. The allowance for doubtful accounts is shown as a reduction in operating revenue in the financial statements. During fiscal year 2018, the Office recorded $7,860 in allowance for doubtful accounts. At the end of the fiscal year, billing reports are generated to calculate the amount of outstanding charges and work performed but not yet billed.

Pursuant to a service agreement with the Ohio Attorney General's Office entered into during fiscal year 2014, the Office can request the AGO to cancel or cause to be cancelled claims previously certified if uncollected after 15 years or earlier. Ohio Revised Code Section 131.02 (F)(2) requires the Attorney General to cancel or cause to be cancelled any unsatisfied claim that has not been collected for 40 years.

I. Intergovernmental Receivable

The Office charges other State agencies for services provided. Charges to other State of Ohio agencies are recorded in the same manner as charges to local governments. As payroll is submitted, the hours are recorded to be billed to the State agency. At the end of the year, billing reports are generated to calculate the amount of outstanding charges and work performed but not yet billed.

J. Capital Assets

In order to be included as a capital asset, an individual asset's total acquisition cost must equal or exceed $1,000 and must have a useful life equal to or greater than three years. All costs incurred in acquiring capital assets, including shipping and handling, trade-in values, and installation fees, are capitalized. Normal maintenance costs and repairs that do not increase the value of the item are expensed when incurred. Any intangible assets identified pursuant to GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, have been classified separately from other assets capitalized by the Office.

Depreciation is based on the straight-line method using the following useful lives:

Computer Equipment	3 Years
Office Equipment	5 Years
Furniture and Fixtures	15 Years
Large Internal Software Projects	15 Years

K. Appropriations Receivable

At June 30, 2018, the Office has outstanding payables that are supported through State appropriations. To ensure payment of these outstanding obligations, the Auditor must receive an appropriation from the State. The total of these reimbursable obligations equals the amount of appropriations receivable. Also included is the total of the Office's portion of the State's Workers' Compensation liability. More information in regards to workers compensation can be found in Note 11.

L. Compensated Absences

The Auditor's Office accounts for compensated absences in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*. Vacation, compensatory time and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the Office will compensate the employees for the benefits through paid time off or some other means, such as a termination or retirement payment. Leave time that has been earned, but is unavailable for use as paid time off or as some other form of compensation because an employee has not met a minimum service time requirement is accrued to the extent it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave benefits are accrued as a liability using the vesting method. The liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments, as of the Statement of Net Position date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments. Included in the compensated absences liability is an amount accrued for salary-related payments directly and incrementally associated with the payment of compensated absences upon termination. For additional information on these payments, see Note 7.

M. Net Position

Net Position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their usage through external restrictions imposed by creditors, grantors or laws or regulations of governments.

Net Position can be displayed in three components as follows:

1) Net Investment in Capital Assets — This consists of capital assets, net of accumulated depreciation and related debt.

2) Restricted — This consists of Net Position that is legally restricted by law through the Ohio Revised Code. When both restricted and unrestricted resources are available for use, generally it is the Office's policy to use restricted resources first, then unrestricted resources when they are needed.

3) Unrestricted — This consists of Net Position that does not meet the definition of "net investment in capital assets".

N. New Accounting Pronouncements

For fiscal year 2018, the office implemented Governmental Accounting Standards Board (GASB) Statement No. 85, Omnibus 2017, Statement No. 75, Accounting and Financial reporting for Postemployment Benefits Other than Pensions and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense. The implementation of this pronouncement resulted in a restatement to beginning net position. Please see Note 12.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the Office's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

O. Unearned Revenue

Unearned revenue represents the amount received for UAN billings billed in advance of services being provided.

P. Pensions/OPEB

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are also explained in Notes 5 and 5A.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Office, deferred inflows of resources are reported on the statement of net position for pension and OPEB are explained in Notes 5 and 5A.

Note 2 — Description of Accounts

The Office operates on a basis other than GAAP during the year. Accounting transactions are conducted on a modified accrual basis through the State of Ohio's accounting system – the Ohio Administrative Knowledge System (OAKS). The Office has several accounts which are segregated for the purposes of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Each account is designated by an account number, and an item or Appropriation Line Item (ALI) description. The account and ALI numbers detail the spending control by which the Office manages spending.

The General Assembly appropriates funds to the Office within the State of Ohio's General Revenue Fund. The General Revenue Fund's appropriations are distributed to the Office in two separate ALIs. An ALI limits the use of funds as approved by legislation. The Office's ALI's are further divided into four accounts for budgetary control.

The General Revenue Fund Appropriation Line Items (ALI's) include the following:

• **GRF-321 (Operating Expenses):** The 321 ALI is the general operating account established for the Office. Appropriations may be used for all activities of the Office not required to be included in another account. Unencumbered appropriations lapse at the end of the fiscal year and revert to the State General Revenue Fund.

• **GRF-403 (Fiscal Watch/Emergency Technical Assistance):** The 403 ALI was established to fund the provision of technical assistance to entities in fiscal watch or fiscal emergency status.

• **GRF-409 (School District Performance Audits)**: The 409 ALI was established to fund the costs of performance audits for school districts under fiscal caution, in a state of fiscal watch or state of fiscal emergency.

Other State of Ohio Accounts for which the Auditor has responsibility are:

• **Account 109 Public Audit Expense:** State Agencies - Ohio Revised Code (ORC), Section 117.13, establishes the Public Audit Expense - State Agencies. This Section allows the Auditor to charge state agencies for services provided.

• **Account 422 Public Audit Expense:** Local Governments - ORC Section 117.13 also establishes the Public Audit Expense - Local Governments. This section of ORC sets forth the costs that may be recovered by the Auditor in the audit and provision of accounting services to local governments.

• **Account 584 Auditors' Training Expense:** To enhance local government officials' knowledge of governmental accounting procedures, ORC Section 117.44 establishes an account for the Auditor to conduct training programs. ORC Section 117.44 allows the Auditor to determine the manner and content of the training and allows the Auditor to charge the political subdivision attending the training for the actual and necessary expenses of the training.

• **Account 675 Uniform Accounting Network:** ORC Section 117.101 establishes this account for the Auditor to create and maintain a uniform and compatible computerized financial management and accounting system. ORC Section 117.101 also allows the Auditor to charge participating political subdivisions for goods, materials, supplies, and services necessary to maintain the network.

• **Account 5JZ Leverage, Efficiency, Accountability and Performance Fund (LEAP):** Performance Audits - ORC Section 117.47 establishes an account for the Auditor to loan political subdivisions money for the cost of a performance audit. The advances must be repaid within one year of completion.

Note 3 — Deposits and Investments

The deposit and investment policies of the Treasurer are governed by the Uniform Depository Act, Chapter 135, Ohio Revised Code. As required by the Ohio Revised Code, the Treasurer of State is custodian for the Office's cash and cash equivalents. The Treasurer's cash and investment pool holds the Office's assets, valued at the Treasurer's reported carrying amount.

Additional information regarding the classification of the State's deposits and investments is contained in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018.

Note 4 — Capital Assets

Capital asset activity for fiscal year 2018 is as follows:

Assets at Cost:

	Beginning Balance	Additions	Disposals	Ending Balance
Computer Equipment	$1,436,553	$18,029	$(37,988)	$1,416,594
Office Equipment	697,823	19,040	(62,848)	654,015
Furniture & Fixtures	242,216	1,133	(10,066)	233,283
Large Internal Software Projects	1,424,498	0	0	1,424,498
Subtotal	**3,801,090**	**38,202**	**(110,902)**	**3,728,390**
Accumulated Depreciation:				
Computer Equipment	(1,349,073)	(108,099)	37,988	(1,419,184)
Office Equipment	(396,174)	(83,743)	62,848	(417,069)
Furniture & Fixtures	(173,855)	(6,021)	9,678	(170,198)
Large Internal Software Projects	(688,511)	(94,967)	0	(783,478)
Subtotal	**(2,607,613)**	**(292,830)**	**110,514**	**(2,789,929)**
Net Capital Assets	**$1,193,477**	**$254,628**	**(388)**	**$938,461**

More information on capital assets can be found in Note 1 J.

Note 5 — Defined Benefit Pension Plan

Net Pension Liability/Net OPEB Liability

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions- between an employer and its employees of salaries and benefits for employee services. Pensions/OPEB are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability represent the Office's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of services, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revise Code limits the Office's obligation for this liability to annually required payments. The Office cannot control benefit terms or the manner in which pensions are financed; however, the Office does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the pension amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long –term net pension/OPEB liability on the accrual basis of accounting. Any liability for the contractually required pension/OPEB contribution outstanding at the end of the year is included in intergovernmental payable on the accrual basis of accounting. The remainder of this of this note includes the required pension disclosures. See Note 5A for the required OPEB disclosures.

Plan Description – Oho Public Employees Retirement System (OPERS): The Office participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan. While members (e.g. Auditor employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position that may be obtained by visiting https://www.opers.org/investments/cafr.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of Jan. 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reducted and unreduced benefits):

Group A	Group B	Group C
Eligible to Retire on January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after Janurary 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
Age and Service Requirements		
Age 60 with 60 months of service credit	Age 60 with 60 months of service credit	Age 57 with 25 years of service credit
Age 55 with 25 year os service credit	Age 55 with 25 year of service credit	Age 62 with 5 years of service credit
Formula		
2.2% of FAS multipled by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multipled by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multipled by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment(COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to Jan. 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring subsequent to Jan. 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy: The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For fiscal year 2018, members in state and local classifications contributed 10 percent of covered payroll.

For fiscal year 2018, the employer contribution rate was 14 percent. The portion of the employer's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was one percent for fiscal year 2018. Employer contribution rates are actuarially determined.

The Office's contractually required contribution was $6,874,167 for fiscal year 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of Dec. 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Office's portion of the net pension liability was determined by an actuarial valuation as of that date. The Office's proportion of the net pension liability was based on the Office's share of contributions to the Traditional pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Proportionate share of the Net Pension Liability - Traditional Plan	$55,589,233
Proportion of the Net Pension Liability	0.35434100%
Pension expense	$12,447,280
Proportion of the Net Pension Liability	
Current measurement date	0.35434100%
Prior measurement date	0.34980700%
Change in Proportionate Share	(0.00453400%)

At June 30, 2018, the Office reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

	OPERS
Deferred Outflows of Resources	
Differences between expected and actual experience	$56,770
Changes of assumptions	$6,643,286
Net difference between projected and actual earnings on pension plan investments	$0
Changes in proportion and differences between office contributions and proportionate share of contributions	$792,313
Office's contributions subsequent to the measurement date	$3,330,398
Total Deferred Outflows of Resources	**$10,822,767**
Deferred Inflows of Resources	
Difference betweeen expected and actual experience	$1,095,488
Net difference between projected and actual earnings on pension plan investments	$11,934,276
Changes in proportion and differences between office contributions and proportionate share of contributions	$946
Total Deferred Inflows of Resources	**$13,030,710**

$3,330,398 reported as deferred outflows of resources related to pension resulting from the Office's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	OPERS
2019	$5,513,730
2020	(892,881)
2021	(5,255,222)
2022	(4,903,969)
2023	0
Total	**($5,538,342)**

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actual valuation as of Dec. 31, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of Dec. 31, 2017 are presented below.

Wage Inflation: 3.25 percent
Projected Salary Increases, including inflation: 3.25 to 10.75 percent includes wage inflation
Cost of Living Adjustments: Pre-1/7/2013 Retirees, 3% simple; Post-1/2013 Retirees, 3% simple; through 2018, then 2.15% simple
Investment Rate of Return: 7.5%
Valuation Date: 31-Dec-17
Actuarial Cost Method: Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described table.

The most recent experience study was completed for the five year period ended Dec. 31, 2015.

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.25%
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	**100%**	**5.66%**

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Office's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Office's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Office's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% decrease (6.5%)	Discount Rate (7.5%)	1% increase (8.5%)
Office's proportionate share of the net pension liability - Traditional	$98,712,316	$55,589,233	$19,637,578

Note 5A — Define Benefit OPEB Plans

See Note 5 for a description of the net OPEB liability

Plan Description — Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy: The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2018, state employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning Jan. 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Office's contractually required contribution was $272,598 for fiscal year 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was determined by an actuarial valuation as of Dec. 31, 2016 , rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of heath care costs accruals, the heath care payment, and interest accruals during the year. The Office's proportion of the net OPEB liability was based on the Office's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Proportion of the Net OPEB Liability - Current Measurement Date	0.35949000%
Proportion of the Net OPEB Liability - Prior Measurement Date	0.35466500%
Change in Proportionate Share	0.00482500%
Proportionate Share of the Net OPEB liability	$39,037,965
OPEB Expense	$3,502,876

At June 30, 2018, the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS
Deferred Outflows of Resources	
Differences between expected and actual experience	$30,410
Changes of assumptions	$2,842,378
Changes in proportion and differences between office contributions and proportionate share of contributions	$329,707
Total Deferred Outflows of Resources	**$3,202,495**
Deferred Inflows of Resources	
Net difference between projected and actual earnings on OPEB plan investments	$2,908,068
Total Deferred Inflows of Resources	**$2,908,068**

Amounts reported as deferred outflows of resources related to OPEB resulting from Office contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in the pension expense as follows:

	OPERS
Fiscal Year Ending June 30:	
2019	$804,105
2020	804,105
2021	(586,766)
2022	(727,017)
2023	0
Total	**$294,427**

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation: 3.25 percent
Projected Salary Increases, including inflation: 3.25 to 10.75%
Single discount rate: 3.85%
Investment Rate of Return: 6.5%
Municipal bond rate: 3.31%
Health Care Cost Trend Rate: 7.5%, initial, 3.25%, ultimate in 2018
Actuarial Cost Method: Individual Entry Age: Normal

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended Dec. 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00%	1.88%
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	**100%**	**4.98%**

Discount Rate: A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Offices's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Office's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the Office's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% decrease (2.85%)	Discount Rate (3.85%)	1% increase (4.85%)
Office's proportionate share of the net OPEB liability	$51,863,622	$39,037,965	$28,662,138

Sensitivity of the Office's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% decrease	Current Health Care Cost Trend Rate Assumption	1% increase
Office's proportionate share of the net OPEB liability	$37,351,011	$39,037,965	$40,780,546

Note 6 — Post Employment Benefits

A. Ohio Public Employees Retirement System

Plan Description: The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

As of Dec.31, 2016, OPERS maintains one cost-sharing, multiple-employer defined benefit postemployment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member –Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. See OPERS CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml or by writing to the Ohio Public Employees Retirement System, 277 East Town St., Columbus, Ohio 43215-4642.

Funding Policy: The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2018, state and local employers contributed 14 percent of earnable salary which is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of the employer contributions allocated to health care for members in both the traditional and combined plans was 1 percent during fiscal year 2018.

Each year the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2018. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for fiscal year 2018 was 4 percent.

Substantially all of the Office's contributions allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the fiscal years ended June 30, 2018, 2017, and 2016 were $272,598, $725,389, and $874,061, respectively. For fiscal year 2018, 97 percent has been contributed with the balance being reported as benefits payable. The full amount has been contributed for fiscal years 2017 and 2016.

Note 7 — Compensated Absences

Employees of the Auditor of State can earn vacation, sick, and personal leave at various rates as specified by Ohio law. Employees accrue vacation leave at a rate of 3.1 hours every two weeks for the first four years of employment, up to a maximum of 9.2 hours every two weeks after twenty-four years of service. Employees may accrue up to a maximum of three years vacation leave credit. At termination or separation from service, employees are paid at their full rate of pay for 100 percent of unused vacation. Non-overtime exempt employees may also be paid 100 percent of any unused compensatory time. Beginning with the pay period including December 1, full time permanent exempt employees who are in an active pay status will be credited with 32 hours personal leave to be used during the calendar year and to be paid at 100 percent of the hourly base rate. Any unused personal leave from the previous calendar year up to 40 hours is paid to the employee at 100 percent of their current pay rate in a process called the December conversions. Exempt employees who begin employment after December are granted personal leave prorated at 1.23 hours per pay period.

Sick leave for all employees is accumulated at a rate of 3.1 hours every two weeks. Part-time employees earn a percentage of this accrual rate based on the number of hours worked. Upon retirement or separation, an employee may be reimbursed for 50 percent of unused sick leave. Bargaining unit employees must be vested before receiving sick leave compensation. Employees have the option of having unused sick leave earned paid out at a percentage of their current pay rate, based on the number of hours selected, during the December conversions.

To lessen the impact of termination leave payouts, an accrued leave funding program was instituted by law in 1982. Agencies contributed 2.4 percent of gross payroll to Department of Administrative Services (DAS), for each pay period from July 2012-December 2012, 2.7 percent was contributed January 2013-June 2013. These funds are deposited into Fund 8060, Accrued Leave Liability, which provides funding for compensated absences upon termination, and for the annual December conversions. If the cost of compensated absences paid for terminations or the December conversions during a pay period exceeds the amount of the assessment charged for that pay period, then the amount of the difference is charged to Fund 8060 and used to help pay those costs.

At fiscal year end, the Office had $842,520 recorded as Restricted Cash & Cash Equivalents in Fund 8060, Accrued Leave Liability Fund. The accumulated resources to fund future leave increased from the previous year. Therefore, we reported the net effect as a decrease in expense and an increase in restricted cash. The compensated absences liability reported for the Office does not reflect the total State of Ohio balance in DAS' Accrued Leave Liability Fund 8060.

Changes in the compensated absences liability for the fiscal year ended June 30, 2018 were as follows:

Beginning Amount	$9,923,154
Plus: Fiscal Year 2018 Additions	7,175,954
Less: Fiscal Year 2018 Reductions	(7,226,879)
Ending Amount	$9,872,229
Amount Due Within One Year	**$1,764,418**

Note 8 — Lease Commitments

Operating Leases: The Auditor leases various office and storage facilities under cancelable operating leases. Leases are negotiated for two year terms at the start of each budget biennium. The biennium is for fiscal years 2018 and 2019. The Auditor had thirteen cancelable operating leases for headquarters and regional offices at fiscal year end. Operating lease expenses incurred during fiscal year 2018 for the Office were $1,400,046.

The table below is a summary of future minimum lease payments:

Year	Operating
2019	$1,491,889
Subtotal	**$1,491,889**
Less: Interest	0
Total	**$1,491,889**

Note 9 — Risk Management

The State retains the risks associated with claims arising from vehicle liability, property loss and tort liability. The Office is responsible for the replacement of equipment that may be lost or damaged as a result of the operations of this Office. The State also maintains a public employees fidelity blanket bond through a private carrier selected by the Ohio Department of Administrative Service's Risk Management Division for all Auditor of State employees. Individual faithful performance bonds are issued through a separate private carrier for the Auditor of State and the Chief Deputy Auditor.

In addition, employees of the Office who elects medical coverage is enrolled into the Ohio Med PPO Plan. This plan is a fully insured health benefit plan. The plan is managed by three third party administrators (TPAs), Aetna, Anthem and Medical Mutual of Ohio (MMO). Each employee who is enrolled in the health plan will be automatically assigned an administrator based on the first three digits of their home Ohio zip codes.

The State's asset/liability position relative to estimated health benefits funding surplus versus unfunded incurred, but not reported (IBNR) claims liability balance is calculated on the basis of annual actuarial evaluations performed during the year for each plan. Additional disclosures, including other risk disclosures, can be found in the State of Ohio's CAFR for the fiscal year ended June 30, 2018.

Note 10 — Claims and Judgments Payable

The Office is involved in various lawsuits pertaining to matters which are incidental to performing routine government and other functions. Office management is of the opinion that the ultimate settlement of such claims will not result in a material adverse effect on the Office's financial position as of June 30, 2018.

Note 11 — Workers' Compensation

The Office participates in a plan that pays workers' compensation benefits to beneficiaries who have been injured on the job with certain state agencies and state universities. The Ohio Bureau of Workers' Compensation calculates the estimated amount of funds needed in the subsequent fiscal year to pay the claims for these workers and sets rates to collect this estimated amount from participating state agencies and universities in that subsequent one-year period.

As these already-injured workers' claims will be paid out over a period of time, the Bureau also actuarially calculates estimated amounts that will be paid in future periods. The Office's pro-rata share of this estimated liability for such future payments has been calculated by the State of Ohio Office of Budget and Management and the Bureau of Workers' Compensation on the basis of the Office's share of actual cash payments paid to the Bureau in the preceding fiscal year divided by such payments made by all participating entities.

As almost half of the funding for the Office's operations comes from the General Revenue Fund (GRF), which is accounted for as part of the General Fund, the liability allocated to the Office is assigned to the "General Government" function in governmental activities rather than to the Office's Enterprise fund when included in the State of Ohio's CAFR. Ohio Revised Code, Section 4123.39, provides specifically for payment of this workers' compensation liability from appropriate state appropriations.

Changes in workers' compensation liabilities for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Beginning Balance	$6,765,095	$7,604,633
Additions	0	0
Deductions	(6,765,095)	(839,538)
Ending Balance	$29	$6,765,095
Amount Due Within One Year	**$0**	**$104,183**

Note 12 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2018, the Office implemented the Governmental Accounting Standards Board (GASB) Statement No. 75 Accounting and Financial reporting for Postemployment Benefits Other than Pensions. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	($ 18,244,942)
Adjustments	
Net OPEB Liability	(35,822,370)
Deferred Outflow - Payments Subsequent to Measurement Date	195,669
Restated Net Position June 30, 2017	($ 53,871,643)

Other than employer contributions subsequent to the measurement date, the Office made no restatements for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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RSI SCHEDULES SECTION

Auditor of State of Ohio

Schedule of Auditor of State of Ohio Proportionate Share
of the Net Pension Liability
Public Employees Retirement System of Ohio - Traditional Plan
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Office's Proportion of the Net Pension Liability	0.354341%	0.34980700%	0.34262400%	0.34277800%	0.34277800%
Office's Proportionate Share of the Net Pension Liability	$55,589,233	$79,435,221	$59,346,797	$41,342,858	$40,409,060
Office's Covered Payroll	$46,826,623	$45,219,967	$42,642,958	$42,024,942	$43,855,892
Office's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.71%	175.66%	139.17%	98.38%	92.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to reflect information for 10 years, information prior to 2014 is not available. An additional column will be added each year.
Note: Amounts presented for each year were determined as of the Office's measurement date which is the prior calendar year end.

Auditor of State of Ohio

Schedule of Auditor of State of Ohio Contributions - Net Pension Liability
Public Employees Retirement System of Ohio - Traditional Plan
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Contribution	$6,874,167	$5,724,715	$5,244,363	$5,047,539	$4,901,471	$5,701,266
Contributions in Relation to the Contractually Required Contribution	$6,874,167	$5,724,715	$5,244,363	$5,047,539	$4,901,471	$5,701,266
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	
Office Employee Payroll	$51,048,319	$46,075,387	$43,703,025	$42,062,825	$40,845,591	$43,855,892
Contributions as a Percentage of Employee Payroll	13.47%	12.42%	12%	12%	12%	13%

(1) Although this schedule is intended to reflect information for 10 years, information prior to 2013 is not available. An additional column will be added each year.

Auditor of State of Ohio

Schedule of Auditor of State of Ohio Proportionate Share
of the Net OPEB Liability
Public Employees Retirement System of Ohio - Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	2018	**2017**
Office's Proportion of the Net OPEB Liability	0.35949%	0.354665%
Office's Proportionate Share of the Net OPEB Liability	$39,037,965	$35,822,370
Office's Covered Payroll	$46,826,623	$45,219,967
Office's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.37%	79.22%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	77.25%

(1) Although this schedule is intended to reflect information for 10 years, information prior to 2016 is not available. An additional column will be added each year.
Note: Amounts presented for each year were determined as of the Office's measurement date which is the prior calendar year end.

Auditor of State of Ohio

Schedule of Auditor of State of Ohio Contributions - Net OPEB Liability
Public Employees Retirement System of Ohio
Last Two Fiscal Years (1)

	2018	2017
Contractually Required Contribution	$272,598	$725,839
Contributions in Relation to the Contractually Required Contribution	$272,598	$725,839
Contribution Deficiency (Excess)	$0	$0
Office Employee Payroll	$51,048,319	$46,075,387
Contributions as a Percentage of Employee Payroll	60%	1.58%

(1) Although this schedule is intended to reflect information for 10 years, information prior to 2016 is not available. An additional column will be added each year.

Actuarial Assumptions — OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation: 3.25 percent
Projected Salary Increases, including inflation: 3.25 to 10.75%
Single discount rate: 3.85%
Investment Rate of Return: 6.5%
Municipal bond rate: 3.31%
Health Care Cost Trend Rate: 7.5%, initial 3.25%, ultimate in 2028
Actuarial Cost Method: Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended Dec. 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

AOS STATISTICS

This part of the Auditor of State's (the Office's) comprehensive annual financial report presents detailed information as context for understanding what the information in the financial statements and note disclosures says about the Office's overall financial health.

Sources: Unless otherwise noted, the information presented in these schedules is derived from the comprehensive annual financial report for the relevant year.

Additional demographic information, including population totals, personal income totals and per capital income totals, can be located in the State of Ohio's CAFR for the fiscal year ended June 30, 2018.

Auditor of State of Ohio

Changes in Net Position and Net Position by Type, Last Ten Fiscal Years

	Fiscal Year Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPERATING REVENUES										
Charges For Services - Local	$ 36,154,946	$ 36,956,336	$ 39,013,830	$ 33,663,217	$ 37,376,015	$ 37,521,241	$ 36,013,722	$ 32,108,438	$ 35,616,416	$ 37,536,992
Charges For Services - State	9,513,450	9,609,197	9,914,574	9,459,733	9,180,403	9,559,872	10,575,886	8,079,339	7,433,867	9,894,449
Other	394,264	387,917	440,606	322,587	297,133	235,559	307,859	200,064	259,544	238,925
Total Operating Revenues	46,062,660	46,953,450	49,369,010	43,445,537	46,853,551	47,316,672	46,897,467	40,387,841	43,309,827	47,670,366
OPERATING EXPENSES										
Personal Services	75,972,532	83,139,543	72,512,431	64,566,700	63,245,026	60,089,588	63,094,181	63,755,535	64,536,143	76,807,185
Maintenance	5,309,341	7,656,835	6,105,878	3,476,221	6,934,392	5,325,643	5,674,926	4,863,067	5,519,204	7,748,731
Depreciation	292,830	306,387	320,185	418,172	406,798	428,534	395,287	563,476	525,621	738,529
Other	0	0	0	1,595,656	0	0	0	0	0	30,025
Total Operating Expenses	81,574,703	91,102,765	78,938,494	70,056,749	70,586,216	65,843,765	69,164,394	69,182,078	70,580,968	85,324,470
Operating Loss	(35,512,043)	(44,149,315)	(29,569,484)	(26,611,212)	(23,732,665)	(18,527,093)	(22,266,927)	(28,794,237)	(27,271,141)	(37,654,104)
NON-OPERATING REVENUES/(EXPENSES)										
Investment Income	15,559	11,566	8,150	5,144	3,196	2,945	2,952	0	0	0
Interest Expense	0	0	0	0	0	0	0	(1)	(66)	(292)
Grant	0	0	0	0	0	0	0	0	0	16,443
Gain/(Loss) on Sale of Capital Assets	(388)	2,579	21,243	25,321	10,500	(219)	(9,950)	(907)	746	(197,724)
State Appropriations	22,117,461	30,603,048	30,332,459	28,261,895	27,822,384	26,869,868	26,412,888	29,821,687	28,471,010	33,942,283
Total Non-Operating Revenues/(Expenses)	22,132,632	30,617,193	30,361,852	28,292,360	27,836,080	26,872,594	26,405,890	29,820,779	28,471,690	33,760,710
Transfers-In/Capital Contribution	0	0	0	1,998	0	0	0	0	0	400,000
Transfers-Out	0	0	0	0	0	0	0	0	0	(35,550)
CHANGE IN NET POSITION	$ (13,379,411)	$ (13,532,122)	$ 792,368	$ 1,683,146	$ 4,103,415	$ 8,345,501	$ 4,138,963	$ 1,026,542	$ 1,200,549	$ (3,893,394)
NET POSITION BY TYPE										
Net Investment in Capital Assets	$ 938,461	$ 1,193,477	$ 1,337,688	$ 1,353,708	$ 1,585,984	$ 1,890,639	$ 1,961,925	$ 1,805,084	$ 2,348,964	$ 754,242
Restricted Net Position	842,520	843,637	787,861	1,837,623	3,014,482	2,353,747	1,227,315	1,753,981	1,829,337	1,391,225
Unrestricted Net Position	(-69,032,035)	(-55,908,757)	(-6,838,369)	(-8,696,519)	(-11,788,800)	22,759,306	15,468,951	10,960,160	9,314,382	10,146,667
Total Net Postion by Type	$ (67,251,054)	$ (53,871,643)	$ (4,712,820)	$ (5,505,188)	$ (7,188,334)	$ 27,003,692	$ 18,658,191	$ 14,519,225	$ 13,492,683	$ 12,292,134

Source: Auditor of State of Ohio

Auditor of State of Ohio

Schedule 2

Revenue by Type and Source, Last Ten Fiscal Years

	Fiscal Year Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPERATING REVENUES:										
Charges For Services - Local										
Audits - Local Governments	$ 28,865,061	$ 28,753,452	$ 31,138,578	$ 27,514,634	$ 30,145,164	$ 29,536,330	$ 28,152,172	$ 28,805,847	$ 28,958,180	$ 30,303,977
Local Government Services	2,942,475	3,240,235	3,064,604	2,682,898	3,101,446	3,192,097	3,067,852	3,319,299	3,110,333	3,097,734
Uniform Accounting Network Fees	4,347,410	4,862,650	4,717,821	3,468,376	4,062,934	4,542,052	4,478,699	(16,708)	3,547,903	4,135,281
LEAP Audits	0	99,999	92,827	(2,691)	66,471	250,762	314,999	0	0	0
Total Charges For Services - Local	36,154,946	36,956,336	39,013,830	33,663,217	37,376,015	37,521,241	36,013,722	32,108,438	35,616,416	37,536,992
Charges For Services - State										
Audits - State Agencies	6,872,709	6,358,461	7,102,382	6,556,141	6,280,745	6,973,140	8,189,449	6,099,559	5,485,600	7,963,468
Medicaid Contract Audits	2,640,741	3,250,736	2,812,192	2,903,592	2,899,658	2,586,732	2,386,437	1,979,780	1,948,267	1,930,981
Total Charges For Services - State	9,513,450	9,609,197	9,914,574	9,459,733	9,180,403	9,559,872	10,575,886	8,079,339	7,433,867	9,894,449
Other Operating Revenues	394,264	387,917	440,606	322,587	297,133	235,559	307,859	200,064	259,544	238,925
TOTAL OPERATING REVENUES	**46,062,660**	**46,953,450**	**49,369,010**	**43,445,537**	**46,853,551**	**47,316,672**	**46,897,467**	**40,387,841**	**43,309,827**	**47,670,366**
NON-OPERATING REVENUES:										
Investment Income	15,559	11,566	8,150	5,144	3,196	2,945	2,952	0	0	0
Grant	0	0	0	0	0	0	0	0	0	16,443
Gain on Sale of Capital Assets	0	2,579	21,243	25,321	10,500	0	2,935	5,000	746	0
Loss on Sale of Capital Assets	(388)	0	0	0	0	0	0	0	0	0
State Appropriations	22,117,461	30,603,048	30,332,459	28,261,895	27,822,384	26,869,868	26,412,888	29,821,687	28,471,010	33,942,283
TOTAL NON-OPERATING REVENUES	**22,132,632**	**30,617,193**	**30,361,852**	**28,292,360**	**27,836,080**	**26,872,813**	**26,418,775**	**29,826,687**	**28,471,756**	**33,958,726**
TOTAL OFFICE REVENUES	**$ 68,195,292**	**$ 77,570,643**	**$ 79,730,862**	**$ 71,737,897**	**$ 74,689,631**	**$ 74,189,485**	**$ 73,316,242**	**$ 70,214,528**	**$ 71,781,583**	**$ 81,629,092**

Source: Auditor of State of Ohio

Auditor of State of Ohio

Rate Schedule - Last Ten Fiscal Years

Fiscal Year	State Rate	Average Local Government Audit Rate	Local Government Services Rate
2018	$68.00	$41.00	$50.00
2017	$68.00	$41.00	$50.00
2016	$66.50	$41.00	$50.00
2015	$65.92	$41.00	$50.00
2014	$63.69	$41.00	$50.00
2013	$63.69	$41.00	$50.00
2012	$63.69	$38.74	$50.00
2011	$61.23	$36.68	$50.00
2010	$58.79	$36.60	$50.00
2009	$60.44	$34.27	$50.00

Notes

The State rate is an hourly rate charged to all State Agency audits and Medicaid Provider Audits. The rate is determined by an independent third-party and is included in the Statewide Cost Allocation Plan.

Audits of local governments are charged a flat $41 that was instituted in October 2011. Prior to October 2011, local governments were charged the employees' wage rate plus recovery of certain expenditures permitted under Ohio Revised Code 117.13 (C) times hours worked.

The LGS rate is an hourly rate charged by the Local Government Services group for services rendered. For fiscal year 2009 the rate was adjusted to $47 from November 2008 to March 2009 and adjusted to the current rate in April 2009.

Source: Auditor of State of Ohio

Auditor of State of Ohio

Rate Schedule - Last Ten Fiscal Years (continued)

Uniform Accounting Network Monthly Fee Schedule

Revenue From	Revenue To	Jan. 2009 - June 30, 2018
$0	$ 50,000	$ 8
50,001	100,000	18
100,001	150,000	30
150,001	200,000	37
200,001	250,000	44
250,001	300,000	51
300,001	350,000	62
350,001	400,000	72
400,001	450,000	83
450,001	500,000	95
500,001	600,000	105
600,001	750,000	135
750,001	1,000,000	165
1,000,001	2,500,000	215
2,500,001	5,000,000	255
5,000,001	7,500,000	280
7,500,001	10,000,000	300
10,000,001	99,999,999	325

Notes

Uniform Accounting Network (UAN) Fees are charged to the client quarterly. Fees shown above are monthly fees. Starting in January 2005, a $50 per month surcharge for hardware was added to the clients' quarterly billing. The fees shown above do not reflect the additional $50 per month surcharge.

Fees are determined by the clients' total resources as determined by the Auditor of State's Office. UAN clients are billed in advance.

Source: Auditor of State of Ohio, Uniform Accounting Network

Auditor of State of Ohio

Number of Audits Released by Type

	FY2018	FY2017	FY2016	FY2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Agreed Upon Procedures:										
Cities	0	0	0	1	0	6	0	0	1	1
Counties	0	0	1	2	3	3	0	0	4	1
School Districts	1	9	2	1	2	2	0	3	2	1
State Agencies	4	2	3	3	11	5	6	5	5	7
Medicaid Contract	22	91	74	58	54	59	60	68	126	253
Townships / Villages	325	376	283	243	325	421	335	303	91	1
Other	1008	624	362	372	407	482	482	321	297	181
	1,360	**1,102**	**725**	**680**	**802**	**978**	**883**	**700**	**526**	**445**
Basic Audit:										
Cities	0	0	0	0						
Counties	0	1	0	1						
School Districts	0	1	0	0						
State Agencies	0	0	0	0						
Medicaid Contract	0	0	0	0						
Townships / Villages	40	54	48	42						
Other	223	198	154	147						
	263	**254**	**202**	**190**	**0**	**0**	**0**	**0**	**0**	**0**
Financial Audits										
Cities	249	258	234	239	253	260	244	264	263	271
Colleges & Universities	40	39	40	41	81	82	77	76	79	72
Community School Districts	342	381	321	367	380	327	312	332	371	312
Counties	90	91	89	88	87	90	92	90	88	88
Libraries	66	17	86	94	61	78	62	156	192	211
School Districts	630	633	657	686	626	686	692	729	666	658
State Agencies	18	20	26	21	91	25	27	24	27	30
Townships	401	413	441	448	300	374	340	463	682	768
Villages	265	262	228	269	268	336	277	354	401	426
Other	799	884	751	734	786	721	679	789	853	1,027
	2,900	**2,998**	**2,873**	**2,987**	**2,933**	**2,979**	**2,802**	**3,277**	**3,622**	**3,863**
Medicaid Provider Audits	**24**	**20**	**26**	**20**	**22**	**19**	**12**	**2**	**8**	**6**
Performance Audits										
Cities	1	2	1	3	3	9	4	1	3	3
Colleges & Universities	0	0	0	0	0	0	0	0	0	1
Counties	0	0	0	2	1	1	2	1	2	3
School Districts	10	14	10	17	13	10	9	10	25	22
State Agencies	0	4	0	4	1	4	1	2	1	3
Townships / Villages	1	0	2	0	0	2	1	1	1	0
Other	1	1	1	0	0	0	2	0	0	0
	13	**21**	**14**	**26**	**18**	**26**	**19**	**15**	**32**	**32**
Special Audits										
Cities	0	0	0	1	0	1	1	1	1	0
Counties	0	0	1	3	1	1	1	1	2	4
School Districts	0	1	2	0	1	1	1	0	4	4
State Agencies	0	0	0	0	0	0	0	0	0	2
Townships / Villages	1	0	2	1	1	1	0	6	3	1
Other	0	3	4	3	2	5	3	3	1	0
	1	**4**	**9**	**8**	**5**	**9**	**6**	**11**	**11**	**11**
SOC 1 Reports	**20**	**22**	**24**	**25**	**24**	**23**	**26**	**38**	**26**	**24**
TOTAL	**4,581**	**4,421**	**3,873**	**3,936**	**3,804**	**4,034**	**3,748**	**4,043**	**4,225**	**4,381**

Source: Auditor of State's website, Audit Search (www.auditor.state.oh.us/AuditSearch); Medicaid Contract Agreed Upon Procedures and Medicaid Provider Audits obtained from the Auditor of State Annual Report; SOC 1 obtained from the State Audit Region.

SOC 1 Reports prior to FY12 reported as SAS-70 reports.

Basic Audits compiled as a separate audit type for FY 2015.

Auditor of State of Ohio

Schedule 5

Local Government Services Completed Projects by Type

Project Type	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
GAAP Compilations:										
GPFS/CAFR Under GASB No. 34	54	56	61	62	65	61	60	59	65	62
Basic Financial Statements Under GASB No. 34	166	168	166	168	172	171	177	179	161	163
Consultation/Supervision Only	21	23	20	21	26	30	30	39	34	33
Cash Basis	62	51	55	57	46	50	51	43	48	44
Fiscal Emergency/Watch/Caution	59	54	67	73	83	72	76	81	77	78
Reconciliations & Reconstructions	18	12	22	13	18	8	11	11	14	12
Special Projects	28	28	19	21	19	9	7	3	1	5
General Assistance, Training	7	18	7	10	24	21	28	24	19	21
Manuals	5	4	4	4	3	4	3	5	5	5
Fund Requests	157	123								
Contact Me Inquiry	196	110								
Constituent/Client Contact	1612	866								
UAN Monitoring	26	25	26	25	25	33	37	39	40	30
TOTAL	**2,411**	**1,538**	**447**	**454**	**481**	**459**	**480**	**483**	**464**	**453**

Fund Requests, Contact Me Inquiry, and Constituent/
Client Contact was tracked for first time in FY 2017

Source: Local Government Services, Auditor of State of Ohio

Auditor of State of Ohio

Schedule 6

Number of Employees by Division

	Fiscal Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Administration	44	45	44	37	44	47	44	61	70	75
Audit	577	578	569	593	539	537	575	579	616	631
Fraud and Investigative Audits	28	24	24	17	44	43	42	36	39	36
Information Technology	52	54	53	51	53	53	53	46	45	46
Legal	7	6	7	10	8	10	12	10	14	14
Local Government Services	49	50	52	51	52	54	53	56	57	59
Ohio Performance Team	30	31	34	37	30	36	44	35	29	45
TOTAL	**787**	**788**	**783**	**796**	**770**	**780**	**823**	**823**	**870**	**906**

Source: Auditor of State of Ohio

Notes:
Table includes permanent full-time and part-time employees.

East	**Joey Jones, CPA, Chief Auditor**	
	Voinovich Government Center 242 Federal Plaza W, Suite 302 Youngstown, Ohio 44503	Phone: (330) 797-9900 Toll-Free: (800) 443-9271 Fax: (330) 797-9949
Counties Served:	Carroll, Columbiana, Jefferson, Mahoning, Portage, Stark, Summit, Trumbull	
Central	**Stacie Scholl, Chief Auditor**	
	88 E. Broad St., 10th Floor Columbus, Ohio 43215	Phone: (614) 466-3402 Toll-Free: (800) 443-9275 Fax: (614) 728-7199
Counties Served:	Ashland, Crawford, Delaware, Fairfield, Franklin, Holmes, Knox, Licking, Madison, Marion, Morrow, Pickaway, Richland, Union, Wayne	
Northeast	**Dan Stuetzer, CPA, CISA, Chief Auditor**	
	Lausche Building, 12th Floor 615 Superior Ave., NW Cleveland, Ohio 44113	Phone: (216) 787-3665 Toll-Free: (800) 626-2297 Fax: (216) 787-3361
Counties Served:	Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Medina	
Northwest	**Stephen Flickinger, CPA, CPE, Chief Auditor**	
	One Government Center, Room 1420 Toledo, Ohio 43604-2246	Phone: (419) 245-2811 Toll-Free: (800) 443-9276 Fax: (419) 245-2484
Counties Served:	Defiance, Erie, Fulton, Hancock, Henry, Huron, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Williams, Wood, Wyandot	
State Audits	**Deborah Liddil, CPA, CGFM, Chief Auditor**	
	88 E. Broad St., 10th Floor Columbus, Ohio 43215	Phone: (614) 466-3402 Toll-Free: (800) 443-9275 Fax: (614) 728-7199
Southeast	**Shane Statler, Chief Auditor**	
	53 Johnson Rd. The Plains, Ohio 45701	Phone: (740) 594-3300 Toll-Free: (800) 441-1389 Fax: (740) 594-2110
Counties Served:	Athens, Belmont, Coshocton, Gallia, Guernsey, Harrison, Hocking, Jackson, Meigs, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, Vinton, Washington	
Southwest	**Loren Crisp, CPA, Chief Auditor**	
	11117 Kenwood Rd. Blue Ash, Ohio 45242	Phone: (513) 361-8550 Toll-Free: (800) 368-7419 Fax: (513) 361-8577
Counties Served:	Adams, Brown, Butler, Clermont, Clinton, Fayette, Hamilton, Highland, Lawrence, Pike, Ross, Scioto, Warren	
West	**Donna Waldron, CPA, CFE, MBA, Chief Auditor**	
	One First National Plaza 130 W. Second St., Suite 2040 Dayton, Ohio 45402	Phone: (937) 285-6677 Toll-Free: (800) 443-9274 Fax: (937) 285-6688
Counties Served:	Allen, Auglaize, Champaign, Clark, Darke, Greene, Hardin, Logan, Mercer, Miami, Montgomery, Preble, Shelby, Van Wert	

SPECIAL THANKS

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