COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year ended
June 30, 2016

THE SEAL OF THE AUDITOR OF STATE OF OHIO

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, 2016

Dave Yost

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

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September 27, 2016

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

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). It is a comprehensive presentation of the office's financial and operating activities during the past fiscal year. 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. 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 Comprehensive Annual Financial Report (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 2016, 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.

In May of 2015, Auditor Yost launched the **Public Integrity Assurance Team (PIAT).** The new team combines special audits, investigations and legal specialties into one team.

Policy and Legislative Affairs work to communicate the value of financial and performance audits, as well as the the expertise of the Auditor of State's office to the General Assembly, political subdivisions, relevant associations and other specialized audiences.

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.

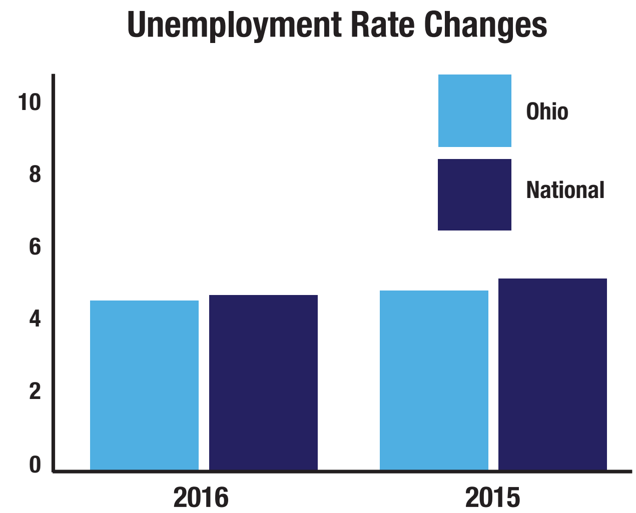
Budgetary Controls

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 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 4.8 percent in June 2016, a decrease from a rate of 5 percent in 2015. The national unemployment rate for June 2016 was listed at 4.9 percent, a decrease from the 5.3 percent reported for June 2015.



Major Initiatives

Charter School Student Attendance Head Count II

After an initial head count audit in the 2014-2015 school year, we sent our auditors back into our charter schools to determine whether attendance had improved and if tax dollars were being spent appropriately and efficiently. We also examined attendance in comparable public schools to establish a baseline. The findings: There was progress, but room for improvement remained.

Sunshine Audits

Having created a program to assist Ohioans in their battles for public records in 2015, the initiative had a successful year in fiscal year 2016. There were 16 instances where complaints were made to the Auditor of State's office about a government's unwillingness to provide records. While some governmental entities balked at providing records, most were compliant after we intervened. A few were resistant to operating in the true spirit of open government.

SkinnyOhio.org Revamp

In January of 2016, the Auditor of State's office released the new and improved skinnyOhio.org- a governmental resource to help local communities learn about and share innovative practices that should reduce the cost of government.

Fraud Training for Local Government Officials

Too often our auditors discover theft and fraud after significant financial damage has been done. To combat this problem, our Public Integrity Assurance Team held training seminars across the state to help local officials spot the earliest signs of fraud. Hundreds attended the free training program.

Supplemental Nutrition Assistance Program (SNAP) Audit:

Our office reviewed activities in the SNAP program, also known as the food stamp program, looking for weaknesses that make the system vulnerable to fraud. We identified numerous weaknesses and some instances of fraud, even though that wasn't the mission. Auditor Yost shared the findings when he testified before the U.S. House Committee on Agriculture.

Financial Audits

Completion of high-quality financial audits in a timely fashion continues to be a top priority for the Auditor's 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 3,873 financial audit reports from July 1, 2015 through June 30, 2016, which included traditional financial and compliance, agreed upon procedure (AUP) engagements and basic audits.

Local Government Services (LGS)

The Local Government Services Section serves as a consulting and fiscal advisory group to all governmental agencies and subdivisions, and provides services including, but not limited to, financial forecasts, GAAP conversion assistance, annual financial report processing, record reconstruction and reconciliation, fiscal distress assistance, merger and dissolution assistance, and financial management training for elected officials. LGS also serves as fiscal supervisor to entities in fiscal emergency, providing financial counsel to both local governments and the oversight commission in recovery efforts. During the past fiscal year, LGS assisted local governments in the preparation of 302 annual financial reports. This included 61 Comprehensive Annual Financial Reports (CAFRs), 166 Basic Financial Statements (BFS) 20 supervision engagements (both CAFR and BFS) consultation/supervision engagements and 55 cash basis statements. In addition, LGS responded to 107 fund request inquiries from local governments.
LGS assisted in the release of one school district from Fiscal Watch designation and the declaration of one school district into Fiscal Emergency. The section also assisted with the territorial transfer of one school district.

The LGS Section also assisted the office in carrying out its responsibilities under the fiscal distress laws applicable to local governments. One municipality and one township were released from fiscal emergency designation and two municipalities were placed in fiscal emergency.

Medicaid Contract Audits

The Medicaid Contract Audit Section (MCA) is dedicated to ensuring that Ohio's Medicaid dollars are not illegally spent or wasted by those working under contracts with state agencies. The Medicaid Contract Audit Section employs 29 professionals with statewide jurisdiction to combat fraud, waste and abuse by auditing Medicaid providers.

The section also is an active member of the interagency Medicaid Program Integrity Group and the Ohio Healthcare Investigators Organization, both of which focus on combating fraud, waste and abuse in Ohio. Additionally, the MCA section is part of a new joint program integrity initiative that focuses on identified issues in the provision of home health care.

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

During fiscal year 2016, the Auditor of State's office released 26 Medicaid provider compliance examinations and identified more than $ 6.6 million in overpayments . MCA also released reports on 53 County Boards of Developmental Disabilities, as well as 11 councils of governments. The reports identified overpayments of over $190,000 and adjustments totaling more than $ 12.6 million in non-federal reimbursable costs. The section also released another 10 reports on intermediate care facilities for individuals with intellectual disabilities. The reports identified overpayments of more than $4,700 and adjustments of more than $106,000 in non-federal reimbursable costs and revenue offsets, which reduce net costs chargeable to the Medicaid program.

Performance Audits

ORC 117.46 (enacted in 2011) requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. OPT initiated performance audits of three state agencies during fiscal year 2016, including the Ohio Department of Health, the Ohio Bureau of Workers Compensation and the Ohio Department of Transportation. Reports for these three entities, as well as at least one more state agency to be determined, are scheduled for release during fiscal year 2017.

On June 14, 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. OPT will conduct the voluntary studies, which will measure the potential benefits of sharing between neighboring entities. The Auditor's office plans to begin accepting applications later this year.

Center for Audit Excellence

The Center for Audit Excellence 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 2016, certifying more than 1,650 reports, completing nine regional reviews and performing over 80 working paper reviews of independent public accounting (IPA) firms

In the second year of GASB 68 census testing, the group tested more than 275 engagements, while working with the pension systems and their independent auditors, as well as the Auditor's audit staff.

In addition, CFAE completed the implementation of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), which impacts all Single Audits. The CFAE completely revamped guidance testing procedures in it Federal Award Compliance Control Records (FACCR) and added a navigation option so users no longer have to scroll through hundreds of pages to find what they need, making the process easier and faster.

The group also added active hyperlinks to over 100 citations of law/regulations referenced in previous FACCRs and updated them for the new Uniform Guidance requirements. By providing the applicable federal law sources, the CFAE reduces the chance of using incorrect federal regulations in federal findings and testing conclusions. The FACCRs also were provided to IPAs so the firms have the same resource files. With this change to the FACCR format, the CFAE hopes future updates will be completed more efficiently and effectively, providing added value to auditors in the field.

The Hinkle System

During fiscal year 2016, the Audit Division simplified the annual financial statement filing process with the introduction of the web-based Hinkle Annual Financial Data Reporting System (the Hinkle System), formerly called AFDRS.

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 Auditor's office, satisfying the filing requirements prescribed by the Ohio Revised Code and Ohio Administrative Code. The Hinkle System increases uniformity in financial reporting and allows for expanded use of the financial data that is submitted.

During fiscal year 2016, financial statements from 5,109 entities were filed through the Hinkle System, representing approximately 91 percent of the entities required to file reports during fiscal year 2016.

Public Integrity Assurance Team

In May of 2015, Auditor Yost launched the Public Integrity Assurance Team (PIAT). The new team combines special auditing, investigative and legal specialties into one cohesive team. As noted at its inception, PIAT brings to the Auditor's office a single source for investigating fraud in government. The statewide team is currently comprised of 10 investiga-

tors, nine forensic auditors and three attorneys. The investigators have worked for various law enforcement agencies across the state and collectively have hundreds of years of experience. All PIAT auditors work exclusively on special audits and many are certified fraud examiners. Additionally, all attorneys are former assistant prosecutors with decades of serious felony and white collar prosecution experience.
In fiscal year 2016, PIAT issued eight special audit reports, as well as numerous findings reported in financial audit reports. The team's special audit reports alone identified more than $869,000 in illegally spent or stolen tax dollars. Additionally, PIAT investigations led to 12 convictions spanning every corner of the state.

SkinnyOhio.org

In January 2016, the Auditor of State's office unveiled the new and improved SkinnyOhio. org- a resource for governments across Ohio to learn about and share innovative practices that can help "skinny down" government and save tax dollars.

SkinnyOhio.org, which is maintained by the Public Affairs Division and IT Department, was codified in fiscal year 2012 by the Ohio General Assembly with the passage of House Bill 487, making it a permanent website for Ohio's taxpayers.

Information Technology

Information Technology (IT) develops and maintains the technology in the Auditor of State's office. Because a significant number of Auditor of State employees regularly work off-site, 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 2016, the IT department completed the following projects:

- Collaborated with the Public Affairs Division to completely redesign SkinnyOhio.org;
- Completed the relocation of the agency disaster site from Cincinnati to Columbus, dramatically improving recovery to an offsite data center;
- Improved access for independent public accounting (IPA) firms to contract for work with the office, manage their profiles and generate invoices for their audit work; and
- In response to the Fiscal Integrity Act (House Bill 10), created the Auditor of State Training Portal, enabling fiscal officers to log completed trainings and track their progress toward certification.

Open Government Unit

During fiscal year 2016, the Auditor of State's office sponsored 30 Certified Public Records Trainings across the state. A total of 1,735 local and state government officials or their designees attended the trainings. Also during that time, the office received and processed 191 requests for public records and 79 inquiries from the public.

Training

This past January, the Training Section launched the FIA online self- reporting portal, which tracks CPE credit hours for registered fiscal officers. To date, more than 800 fiscal officers are registered. Fiscal officers receive an electronic certificate of completion once all hours are completed for filing and auditing purposes.

During April, the Public Integrity Assurance Team (PIAT) and the Training Section offered seven workshops on Fraud Detection and Prevention Training for two hours of CPE and Continuing Legal Education (CLE) credit. More than 475 attendees turned out for the trainings, which were offered free of charge.

In May, the office co-sponsored the 16th Emerging Trends in Fraud Investigation and Prevention Conference with the Association for Certified Fraud Examiners, Ohio Society of CPAs and the Ohio Attorney General's office. The conference trained nearly 700 law enforcement officials, investigators, accountants and attorneys on the latest trends in the field.

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, beginning this year, the first city with a complete computer system (hardware and software), along with training support.

The UAN application is comprised of 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 1,906 to 1,935 local governments using UAN in their daily operations.

Other Information

Certificate of Achievement: The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Auditor of State of Ohio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. 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

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, 2015

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
Public Integrity Assurance Team
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
Deputy Chief of Staff	Kevin Servick
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

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FINANCIAL SECTION

Independent Auditor's Report

Rea & associates a brighter way

September 27, 2016

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 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, 2016, 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, 2016, 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.

CPAs and business consultants
www.reacpa.com

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, 2016, 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.

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,* and *Schedule of Auditor of State of Ohio Contributions* on pages 22–28, 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 27, 2016 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 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, 2016. 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 Position increased $792,368.
- Total Assets increased $5,780,091 or approximately 11 percent from fiscal year 2015. Decreases in intergovernmental receivable and loans receivable were offset by increases in cash and cash equivalents and accounts receivable.
- Total Liabilities increased by $19,920,612 or 32 percent from fiscal year 2015 largely related to an increase in net pension liability. The increase in net pension liability in fiscal year 2016 was $18,003,939. Wages payable, health benefits payable, and compensated absences also increased in fiscal year 2016 due to general wage increases, step and longevity increases, and increased health insurance costs.
- Total Revenues increased by $7,990,967 or 11 percent from fiscal year 2015 due to a significantly smaller allowance for doubtful account write off, computer surcharge reinstatement for United Accounting Network clients, and an increase in billable hours in funds 109 and 422 for state and local government clients.
- Total Expenses increased $8,881,745 or 13 percent from fiscal year 2015. Increase in personal services was due to a significant increase in GASB 68 related pension expense plus negotiated wage increases, step and longevity increases, and health insurance costs increases.

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.

The following schedule provides a summary of the Office's Net Position as of June 30, 2016 as compared to June 30, 2015:

Schedule 1: Comparison of Net Position as of June 30

	2016	2015
ASSETS		
Current Assets	$49,398,878	$42,448,893
Non-Current Assets		
» Restricted Cash and Cash Equivalents	0	1,141,910
» Capital Assets, net of accumulated depreciation	1,337,688	1,353,708
» Appropriations Receivable	7,487,521	7,499,485
Total Assets	**$58,224,087**	**$52,443,996**
Deferred Outflows of Resources		
» Pension	19,689,623	4,324,095
Total Deferred Outflows of Resources	**$19,689,623**	**4,324,095**
LIABILITIES		
Current Liabilities	$6,887,884	$5,696,724
Non-Current Liabilities		
» Workers Compensation	7,487,521	7,499,485
» Compensated absences	7,745,377	7,007,900
» Net Pension Liability	59,346,797	41,342,858
Total Liabilities	**$81,467,579**	**$61,546,967**
Deferred Inflows of Resources		
» Pension	1,158,951	726,312
Total Deferred Inflows of Resources	**1,158,951**	**$726,312**
NET POSITION		
Net Investment in Capital Assets	$1,337,688	$1,353,708
Restricted Net Position	787,861	1,837,623
Unrestricted Net Position	(6,838,369)	(8,696,519)
Total Net Position	**$(4,712,820)**	**$(5,505,188)**

Total assets of the Office increased $5,780,091 or approximately 11 percent as of June 30, 2016. Cash and cash equivalents and accounts receivable increased. Cash and cash equivalent increase was largely attributable to fiscal year 2016 revenues exceeding expenses in accounts 422 and 109 public expense funds and account 675 uniform accounting network fund.

The decrease in restricted cash and cash equivalents in FY 2016 was related to a net deficit balance between the state of Ohio's two third party administrators.

The significant increase in total deferred outflow of resources in fiscal year 2016 was due to an increase in the difference between projected and actual earnings on investments related to the office's net pension liability.

Total liabilities increased $19,920,612 or 32 percent from fiscal year 2015 largely due to an increase in net pension liability. Wages payable, health benefits payable, and compensated absences payable also increased. The net pension liability increase 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. Investment returns were below expectations in calendar year 2015. The increases in wages payable, health benefits payable, and compensated absences were related to fiscal year 2016 negotiated general wage increases, 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, 2016 and is reported pursuant to GASB Statement 68 "Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement 27." 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 the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

GASB 68 requires the net pension liability to equal the Office's share of the Traditional plan's collective:

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

GASB notes that pension 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. GASB noted that the unfunded portion of this pension promise is a present obligation of the Office, part of a bargained-for benefit to the employee, and should accordingly be reported by the Office 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 the liability. 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 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 pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system 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 pension system is responsible for the administration of the plan.

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. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the Office. In the event that contributions, investment returns and other changes are insufficient to keep up with required pension payments, state statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Office's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of the OPERS traditional plan's change in net pension liability.

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 asset 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, 2016, in comparison to the fiscal year ended June 30, 2015:

Schedule 2: Change in Net Position

	2016	2015
OPERATING REVENUES		
Charges for Services – Local	$39,013,830	$33,663,217
Charges for Services – State	9,914,574	9,459,733
Other	440,606	322,587
NON-OPERATING REVENUES		
Gain on Sale of Capital Assets	21,243	25,321
Investment Income	8,150	5,144
State Appropriations	30,332,459	28,261,895
Capital Contributions	0	1,998
Total Revenues	**$79,730,862**	**$71,739,895**
OPERATING EXPENSES		
Personal Services	72,512,431	64,566,700
Maintenance	6,105,878	3,476,221
Depreciation	320,185	418,172
Other	0	1,595,656
Total Expenses	**$78,938,494**	**$70,056,749**
Change in Net Position	**$792,368**	**$1,683,146**
Beginning Net Position	**(5,505,188)**	**(7,188,334)**
Ending Net Position	**$(4,712,820)**	**$(5,505,188)**

Total revenue increased by $7,990,967 or 11 percent from fiscal year 2015 due to a significantly lower allowance for doubtful account write off in fiscal year 2016, the United Accounting Network (UAN) computer surcharge fee being reinstated, and fund 109 and 422 billable hours increasing in fiscal year 2016.

Total Expenses increased by $8,881,745 or 12 percent from fiscal year 2015. The increase in personal services was related to a significant increase in GASB 68 related pension expense plus negotiated 2016 wage increases, step and longevity increases, and health insurance costs increases. A salary floor was also put into place for audit manager and senior audit manager positions in the audit division. Maintenance increase was result of several expenditure account codes previously classified as other expense being rolled up into the maintenance expense category in fiscal year 2016. The account code reclassifications were implemented by the Office of Budget and Management. In addition, the united accounting network (UAN) purchased printers for all UAN clients in fiscal year 2016.

Capital Assets

At June 30, 2016, the Office had invested $ 1,337,688, net of accumulated depreciation, in various classes of capital assets. This represents a decrease of approximately 1 percent in net capital assets from fiscal year 2015. This decrease was due to annual depreciation expense exceeding current year additions.

Depreciation expense for fiscal year 2016 totaled $320,185 (see Schedule 2 above). This figure represents a decrease of approximately 23 percent over fiscal year 2015.

The Schedule below provides a summary of capital assets as of June 30, 2016 and 2015:

Schedule 3: Capital Assets

	2016	2015
Computer Equipment	$1,643,478	$1,734,623
Office Equipment	670,294	666,887
Furniture and Fixtures	239,996	221,635
Large Internal Software Projects	1,424,498	1,424,498
Subtotal	**$3,978,266**	**$4,047,643**
Accumulated Depreciation	(2,640,578)	(2,693,935)
Net Capital Assets	**$1,337,688**	**$1,353,708**

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.

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BASIC FINANCIAL STATEMENTS

Statement of Net Position

As of June 30, 2016

ASSETS	
Current Assets	
» Cash and Cash Equivalents	$39,502,303
» Restricted Cash and Cash Equivalents	787,861
» Accounts Receivable (net of allowance for doubtful accounts)	6,215,134
» Intergovernmental Receivable	1,282,925
» Other Receivable	22,459
» Appropriations Receivable	1,588,196
Total Current Assets	**$49,398,878**
Non-Current Assets	
» Capital Assets, net of accumulated depreciation of $2,640,578	$1,337,688
» Appropriations Receivable	7,487,521
Total Non-Current Assets	**8,825,209**
Total Assets	**$58,224,087**
Deferred Outflows of Resources	
Pension: OPERS	19,689,623
Total Deferred Outflows of Resources	**$19,689,623**
LIABILITIES	
Current Liabilities	
» Accounts Payable	$298,107
» Wages Payable	2,636,126
» Due to Other Governments	37,911
» Benefits Payable	1,075,847
» Health Benefits Payable	146,862
» Workers' Compensation Liability	117,112
» Compensated Absences Payable	1,582,533
» Unearned Revenue	993,386
Total Current Liabilities	**6,887,884**
Non-Current Liabilities	
» Workers' Compensation Liability	$7,487,521
» Compensated Absences Payable	7,745,377
» Net Pension Liability (see Note 5)	59,346,797
Total Non-Current Liabilities	**74,579,695**
Total Liabilities	**81,467,579**
Deferred Outflows of Resources	
Pension: OPERS	1,158,951
Total Deferred Outflows of Resources	**$1,158,951**

Statement of Net Position, continued

As of June 30, 2016

NET POSITION	
Net Investment in Capital Assets	$1,337,688
Restricted Net Position for:	
» Accrued Leave	787,861
Unrestricted Net Position	(6,838,369)
Total Net Position	**$(4,712,820)**

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

Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES	
Charges for Services - Local	39,013,830
Charges for Services - State	9,914,574
Other	440,606
Total Operating Revenues	**$49,369,010**
OPERATING EXPENSES	
Personal Services	72,512,431
Maintenance	6,105,878
Depreciation	320,185
Total Operating Expenses	**$78,938,494**
Operating Loss	(29,569,484)
NON-OPERATING EXPENSES	
Investment Income	8,150
Gain on Sale of Capital Assets	21,243
State Appropriations	30,332,459
Total Non-Operating Revenues	**$30,361,852**
Change in Net Position	**792,368**
Total Net Position - Beginning of Fiscal Year	(5,505,188)
Total Net Position - End of Fiscal Year	**$(4,712,820)**

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

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Recieved From Charges for Services - Local	37,441,080
Cash Recieved From Charges for Services - State	10,260,990
Cash Recieved From Other Sources	440,606
Cash Restricted for Compensated Absences	92,148
Cash Restricted for Heath Benefits Surplus	(1,141,910)
Cash Payments for Personal Services	(66,631,902)
Cash Payments for Maintenance	(6,045,112)
Net Cash Used for Operating Activities	**$(25,584,100)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Appropriations	29,972,185
Net Cash Provided by Non-Capital Financing Activities	**$29,972,185**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(293,891)
Proceeds from sale of Capital Assets	22,874
Net Cash Used for Capital and Related Financing Activities	**$(271,017)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	8,150
Net Cash Provided by Investing Activities	**$8,150**
Net Increase in Cash and Cash Equivalents	4,125,218
Cash and Cash Equivalents at Beginning of Year	36,164,946
Cash and Cash Equivalents at End of Year	**$40,290,164**

Statement of Cash Flows, continued
For the Fiscal Year Ended June 30, 2016

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	$(29,569,484)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	320,185
(Increase)/Decrease in Assets:	
» Allowance for Doubtful Accounts	(1,643,432)
» Accounts Receivable	(72,181)
» Intergovernmental Receivable	346,417
» Loans Receivables	81,037
» Other Receivables	(22,459)
» Decrease in Deferred Outflows - Pension	4,371,663
Increase/(Decrease) in Liabilities:	
» Accounts Payable	33,774
» Wages Payable	539,972
» Benefits Payable	260,187
» Health Benefits Payable	146,862
» Due to Other Governments	34,928
» Workers' Compensation Payable	(12,151)
» Net Pension Liability	(611,316)
» Compensated Absences Payable	839,370
» Unearned Revenue	61,826
» Decrease in Deferred Inflow - Pension	(689,298)
Total Adjustments	**3,985,384**
Net Cash Used for Operating Activities	**$(25,584,100)**
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION	
Cash and Cash Equivalents	$39,502,303
Restricted Cash and Cash Equivalents - Current	787,861
Total Cash and Cash Equivalents at Year End	**$40,290,164**

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, 2016 and results of operations and cash flows for the fiscal year ended June 30, 2016. 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 $39,502,303 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 $787,861 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 2016, the Office recorded $ 132,928 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 3 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, 2016, 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 2016, the Office implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," GASB 73 " Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and amendments to Certain Provisions of GASB 67 and 68," GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and GASB Statement No. 82 " Pension Issues and Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Office's fiscal year 2016 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 73 clarifies the application of certain provisions of GASB 67 and 68. GASB 73 clarifies information required to be presented as notes to the ten year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported over which the pension plan has influence. This statement was not applicable to the OPERS traditional plan and there was no effect on beginning net position.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Office's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated into the Office's fiscal year 2016 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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The OPERS pension system reports 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. For the Office, deferred outflows of resources are reported on the statement of net position for pension and are explained in Note 5.

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 are explain in Note 5.

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.

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, 2016.

Note 4 — Capital Assets

Capital asset activity for fiscal year 2016 is as follows:

Assets at Cost:

	Beginning Balance	Additions	Disposals	Ending Balance
Computer Equipment	$1,734,623	$200,467	$(291,612)	$1,643,478
Office Equipment	666,887	113,990	(110,583)	670,294
Furniture & Fixtures	221,635	19,434	(1,073)	239,996
Large Internal Software Projects	1,424,498	0	0	1,424,498
Subtotal	**4,047,643**	**333,891**	**(403,268)**	**3,978,266**
Accumulated Depreciation:				
Computer Equipment	(1,660,949)	(149,455)	291,612	(1,518,792)
Office Equipment	(369,471)	(70,668)	80,857	(359,282)
Furniture & Fixtures	(164,938)	(5,095)	1,073	(168,960)
Large Internal Software Projects	(498,577)	(94,967)	0	(593,544)
Subtotal	**(2,693,935)**	**(320,185)**	**373,542**	**(2,640,578)**
Net Capital Assets	**$1,353,708**	**$13,706**	**(29,726)**	**$1,337,688**

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

Note 5 — Ohio Public Employees Retirement System

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions- between an employer and its employees of salaries and benefits for employee services. Pensions 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 liability represents the Office's proportionate share of the Traditional plan's collective actuarial present value of projected benefit payments attributable to past periods of services, net of each pension plan's fiduciary net position. The net pension 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 the 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 service in exchange for compensation including pension.

GASB 68 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 contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the 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 liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of the Traditional plan's unfunded benefits is presented as a long –term net pension liability on the accrual basis of accounting. Any liability for the contractually required pension contribution outstanding at the end of the year is included in benefits payable on the accrual basis of accounting.

Plan Description: 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 January 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):

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 benefit 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 January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 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 2016, members in state and local classifications contributed 10 percent of covered payroll.

For fiscal year 2016, 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 2 percent for fiscal year 2016. Employer contribution rates are actuarially determined.

The Office's contractually required contribution was $5,244,363 for fiscal year 2016.

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 December 31, 2015 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	$59,346,797
Proportion of the Net Pension Liability	0.34262400%
Pension expense	$8,315,412
Proportion of the Net Pension Liability	
Prior measurement date	0.34277800%
Current measurement date	0.34262400%
Change in Proportionate Share	(0.00015400%)

At June 30, 2016, the Office reported deferred outflows of resources and deferred inflow of resources related to pensions from the following sources:

	Traditional
Deferred Outflows of Resources	
Net difference between proected and actual earnings on pension plan investments	$17,444,250
Office's contributions subsequent to the measurement date	2,245,373
Total Deferred Outflows of Resources	**$19,689,623**
Deferred Inflows of Resources	
Difference betweeen expected and actual experience	$1,158,951

$ 2,245,373 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, 2017. Other amounts reported as deferred inflows of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

	Traditional
Fiscal Year Ending June 30:	
2017	$3,809,573
2018	4,088,504
2019	4,439,586
2020	3,947,636
Total	**$16,285,299**

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 December 31, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement.

Wage Inflation: 3.75 percent
Future Salary Increases, including inflation: 4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA: 3 percent, simple
Investment Rate of Return: 8 percent
Actuarial Cost Method: Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term 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.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. 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, net of investments expense, for the Defined Benefit porttfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board 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 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Real Rate of Return (Arithmetic)
Fixed Income	23%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	**100%**	**5.27%**

Discount Rate
The discount rate used to measure the total pension liability was eight 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 8 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 (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% decrease (7%)	Current Discount Rate (8%)	1% increase (9%)
Office's proportionate share of the net pension liability - Traditional	$94,553,945	$59,346,797	$29,650,681

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.

OPERS maintains two cost-sharing, multiple-employer defined benefit postemployment health care plans for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which 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.

Funding Policy: The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). 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 for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2016, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for fiscal year 2015. Effective January 1, 2016, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS actuary.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The Office's contribution allocated to fund postemployment health care benefits for the fiscal years ended June 30, 2016, 2015, and 2014 was $874,060, $841,256, and $816,932 respectively. For 2016, 97 percent has been contributed with the balance being reported as benefits payable. The full amount has been contributed for 2015 and 2014.

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-five 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 and personal leave. 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 $ 787,861 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, 2016 were as follows:

Beginning Amount	$8,488,540
Plus: Fiscal Year 2016 Additions	7,208,731
Less: Fiscal Year 2016 Reductions	(6,369,361)
Ending Amount	$9,327,910
Amount Due Within One Year	**$ 1,582,533**

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 next biennium is for fiscal year 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 2016 for the Office were $1,422,318. Negotiations for 2018 and 2019 office facilities will commence prior to July 1, 2017.

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

Year	Operating
2017	$1,422,318
Subtotal	**$1,422,318**
Less: Interest	0
Total	**$1,422,318**

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 have the option of participating in the Ohio Med PPO Plan. This plan is a self-insured health benefit plans administered by Medical Mutual of Ohio and United Healthcare under contract with the state. The Office pays a premium each month to the state based on the number of employees opting for plan participation and the types of coverage selected by its employees.

At the end of the year, the state allocates the incurred but not reported (IBNR) health claim liability (actuarially determined) or surplus to its departments based upon the department's percent of total monthly premiums. The Office had a health benefits payable liability of $146,862 at year-end. Additional disclosures, including other risk disclosures, can be found in the State of Ohio's CAFR for the fiscal year ended June 30, 2016.

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, 2016.

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, 2016 and 2015 were as follows:

	2016	2015
Beginning Balance	$7,616,784	$7,240,646
Additions	0	376,138
Deductions	(12,151)	0
Ending Balance	$7,604,633	$7,616,784
Amount Due Within One Year	**$117,112**	**$117,299**

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RSI SCHEDULES SECTION

Schedule of Auditor of State of Ohio

Proportionate Share of the Net Pension Liability

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 Three Fiscal Years (1)

	2015	2014	2013
Office's Proportion of the Net Pension Liability	0.34262400%	0.34277800%	0.34277800%
Office's Proportionate Share of the Net Pension Liability	$59,346,797	$41,342,858	$40,409,060
Office's Employee Payroll	$42,062,825	$40,846,591	$43,855,892
Office's Proportionate Share of the Net Pension Liability as a Percentage of its Employee Payroll	141.09%	101.21%	92.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

Note: Amounts presented for each fiscal year were determined as of the measurement date.

Auditor of State of Ohio

Schedule of Auditor of State of Ohio Contributions
Public Employees Retirement System of Ohio - Traditional Plan
Last Three Fiscal Years (1)

	2016	2015	2014	2013
Contractually Required Contribution	$5,244,363	$5,047,539	$4,901,471	$5,701,266
Contributions in Relation to the Contractually Required Contribution	$5,244,363	$5,047,539	$4,901,471	$5,701,266
Contribution Deficiency (Excess)	$0	$0	$0	$0
Office Employee Payroll	$43,703,025	$42,062,825	$40,845,591	$43,855,892
Contributions as a Percentage of Employee Payroll	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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STATISTICAL SECTION

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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, 2016.

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

Schedule 1

Auditor of State of Ohio — Schedule 1

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

	Fiscal Year Ended June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
OPERATING REVENUES										
Charges For Services - Local	$ 39,013,830	$ 33,663,217	$ 37,376,015	$ 37,521,241	$ 36,013,722	$ 32,108,438	$ 35,616,416	$ 37,536,992	$ 35,854,040	$ 33,526,098
Charges For Services - State	9,914,574	9,459,733	9,180,403	9,559,872	10,575,886	8,079,339	7,433,867	9,894,449	8,703,405	7,963,974
Other	440,606	322,587	297,133	235,559	307,859	200,064	259,544	238,925	398,636	392,630
Total Operating Revenues	49,369,010	43,445,537	46,853,551	47,316,672	46,897,467	40,387,841	43,309,827	47,670,366	44,956,081	41,882,702
OPERATING EXPENSES										
Personal Services	72,512,431	64,566,700	63,245,026	60,089,588	63,094,181	63,755,535	64,536,143	76,807,185	65,257,496	65,259,648
Maintenance	6,105,878	3,476,221	6,934,392	5,325,643	5,674,926	4,863,067	5,519,204	7,748,731	6,308,461	7,635,649
Depreciation	320,185	418,172	406,798	428,534	395,287	563,476	525,621	738,529	1,530,950	1,458,691
Other	0	1,595,656	0	0	0	0	0	30,025	20,000	24,973
Total Operating Expenses	78,938,494	70,056,749	70,586,216	65,843,765	69,164,394	69,182,078	70,580,968	85,324,470	73,116,907	74,378,961
Operating Loss	(29,569,484)	(26,611,212)	(23,732,665)	(18,527,093)	(22,266,927)	(28,794,237)	(27,271,141)	(37,654,104)	(28,160,826)	(32,496,259)
NON-OPERATING REVENUES/(EXPENSES)										
Investment Income	8,150	5,144	3,196	2,945	2,952	0	0	0	0	0
Interest Expense	0	0	0	0	0	(1)	(66)	(292)	(793)	(1,718)
Grant	0	0	0	0	0	0	0	16,443	24,943	47,766
Gain/(Loss) on Sale of Capital Assets	21,243	25,321	10,500	(219)	(9,950)	(907)	746	(197,724)	18,598	(7,918)
State Appropriations	30,332,459	28,261,895	27,822,384	26,869,868	26,412,888	29,821,687	28,471,010	33,942,283	31,799,804	31,755,229
Total Non-Operating Revenues/(Expenses)	30,361,852	28,292,360	27,836,080	26,872,594	26,405,890	29,820,779	28,471,690	33,760,710	31,842,552	31,793,359
Transfers-In/Capital Contribution	0	1,998	0	0	0	0	0	400,000	0	0
Transfers-Out	0	0	0	0	0	0	0	(35,550)	0	0
CHANGE IN NET POSITION	$ 792,368	$ 1,683,146	$ 4,103,415	$ 8,345,501	$ 4,138,963	$ 1,026,542	$ 1,200,549	$ (3,893,394)	$ 4,046,176	$ (702,900)
NET POSITION BY TYPE										
Net Investment in Capital Assets	$ 1,337,688	$ 1,353,708	$ 1,585,984	$ 1,890,639	$ 1,961,925	$ 1,805,084	$ 2,348,964	$ 754,242	$ 1,655,363	$ 2,604,145
Restricted Net Position	787,861	1,837,623	3,014,482	2,353,747	1,227,315	1,753,981	1,829,337	1,391,225	2,245,180	2,279,947
Unrestricted Net Position	-6,838,369	-8,696,519	-11,788,800	22,759,306	15,468,951	10,960,160	9,314,382	10,146,667	12,284,985	7,255,260
Total Net Postion by Type	$ (4,712,820)	$ (5,505,188)	$ (7,188,334)	$ 27,003,692	$ 18,658,191	$ 14,519,225	$ 13,492,683	$ 12,292,134	$ 16,185,528	$ 12,139,352

Source: Auditor of State of Ohio

Revenue by Type and Source, Last Ten Fiscal Years

Schedule 2

Auditor of State of Ohio — Schedule 2

Revenue by Type and Source, Last Ten Fiscal Years

		Fiscal Year Ended June 30								
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
OPERATING REVENUES:										
Charges For Services - Local										
Audits - Local Governments	$ 31,138,578	$ 27,514,634	$ 30,145,164	$ 29,536,330	$ 28,152,172	$ 28,805,847	$ 28,958,180	$ 30,303,977	$ 28,883,483	$ 26,731,262
Local Government Services	3,064,604	2,682,898	3,101,446	3,192,097	3,067,852	3,319,299	3,110,333	3,097,734	2,890,357	2,841,270
Uniform Accounting Network Fees	4,717,821	3,468,376	4,062,934	4,542,052	4,478,699	(16,708)	3,547,903	4,135,281	4,080,200	3,953,566
LEAP Audits	92,827	(2,691)	66,471	250,762	314,999	0	0	0	0	0
Total Charges For Services - Local	39,013,830	33,663,217	37,376,015	37,521,241	36,013,722	32,108,438	35,616,416	37,536,992	35,854,040	33,526,098
Charges For Services - State										
Audits - State Agencies	7,102,382	6,556,141	6,280,745	6,973,140	8,189,449	6,099,559	5,485,600	7,963,468	7,050,272	5,963,269
Medicaid Contract Audits	2,812,192	2,903,592	2,899,658	2,586,732	2,386,437	1,979,780	1,948,267	1,930,981	1,653,133	2,000,705
Total Charges For Services - State	9,914,574	9,459,733	9,180,403	9,559,872	10,575,886	8,079,339	7,433,867	9,894,449	8,703,405	7,963,974
Other Operating Revenues	440,606	322,587	297,133	235,559	307,859	200,064	259,544	238,925	398,636	392,630
TOTAL OPERATING REVENUES	**49,369,010**	**43,445,537**	**46,853,551**	**47,316,672**	**46,897,467**	**40,387,841**	**43,309,827**	**47,670,366**	**44,956,081**	**41,882,702**
NON-OPERATING REVENUES:										
Investment Income	8,150	5,144	3,196	2,945	2,952	0	0	0	0	0
Grant	0	0	0	0	0	0	0	16,443	24,943	47,766
Gain on Sale of Capital Assets	21,243	25,321	10,500	0	2,935	5,000	746	0	18,598	0
Transfers-In	0	0	0	0	0	0	0	0	400,000	0
State Appropriations	30,332,459	28,261,895	27,822,384	26,869,868	26,412,888	29,821,687	28,471,010	33,942,283	31,799,804	31,755,229
TOTAL NON-OPERATING REVENUES	**30,361,852**	**28,292,360**	**27,836,080**	**26,872,813**	**26,418,775**	**29,826,687**	**28,471,756**	**33,958,726**	**32,243,345**	**31,802,995**
TOTAL OFFICE REVENUES	**$ 79,730,862**	**$ 71,737,897**	**$ 74,689,631**	**$ 74,189,485**	**$ 73,316,242**	**$ 70,214,528**	**$ 71,781,583**	**$ 81,629,092**	**$ 77,199,426**	**$ 73,685,697**

Source: Auditor of State of Ohio

Rate Schedule - Last Ten Fiscal Years
Schedule 3

Auditor of State of Ohio

Rate Schedule - Last Ten Fiscal Years

Fiscal Year	State Rate	Average Local Government Audit Rate	Local Government Services Rate
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
2008	$58.36	$33.61	$37.00
2007	$57.25	$32.65	$37.00

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 $41.00 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. 2007 - June 30, 2016
$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

Number of Audits Released by Type
Schedule 4

Auditor of State of Ohio

Number of Audits Released by Type

	FY2016	FY2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Agreed Upon Procedures:										
Cities	0	1	0	6	0	0	1	1	1	1
Counties	1	2	3	3	0	0	4	1	5	3
School Districts	2	1	2	2	0	3	2	1	0	5
State Agencies	3	3	11	5	6	5	5	7	2	2
Medicaid Contract	74	58	54	59	60	68	126	253	172	115
Townships / Villages	283	243	325	421	335	303	91	1	3	1
Other	362	372	407	482	482	321	297	181	236	191
	725	**680**	**802**	**978**	**883**	**700**	**526**	**445**	**419**	**318**
Basic Audit:										
Cities	0	0								
Counties	0	1								
School Districts	0	0								
State Agencies	0	0								
Medicaid Contract	0	0								
Townships / Villages	48	42								
Other	154	147								
	202	**190**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial Audits										
Cities	234	239	253	260	244	264	263	271	261	258
Colleges & Universities	40	41	81	82	77	76	79	72	75	73
Community School Districts	321	367	380	327	312	332	371	312	361	191
Counties	89	88	87	90	92	90	88	88	87	87
Libraries	86	94	61	78	62	156	192	211	188	220
School Districts	657	686	626	686	692	729	666	658	674	652
State Agencies	26	21	91	25	27	24	27	30	25	26
Townships	441	448	300	374	340	463	682	768	761	797
Villages	228	269	268	336	277	354	401	426	401	401
Other	751	734	786	721	679	789	853	1,027	913	870
	2,873	**2,987**	**2,933**	**2,979**	**2,802**	**3,277**	**3,622**	**3,863**	**3,746**	**3,575**
Medicaid Provider Audits	**26**	**20**	**22**	**19**	**12**	**2**	**8**	**6**	**8**	**3**
Performance Audits										
Cities	1	3	3	9	4	1	3	3	4	1
Colleges & Universities	0	0	0	0	0	0	0	1	0	0
Counties	0	2	1	1	2	1	2	3	0	0
School Districts	10	17	13	10	9	10	25	22	16	10
State Agencies	0	4	1	4	1	2	1	3	0	1
Townships / Villages	2	0	0	2	1	1	1	0	2	1
Other	1	0	0	0	2	0	0	0	2	1
	14	**26**	**18**	**26**	**19**	**15**	**32**	**32**	**24**	**14**
Special Audits										
Cities	0	1	0	1	1	1	1	0	1	0
Counties	1	3	1	1	1	1	2	4	1	2
School Districts	2	0	1	1	1	0	4	4	2	2
State Agencies	0	0	0	0	0	0	0	2	2	0
Townships / Villages	2	1	1	1	0	6	3	1	0	0
Other	4	3	2	5	3	3	1	0	2	7
	9	**8**	**5**	**9**	**6**	**11**	**11**	**11**	**8**	**11**
SOC 1 Reports	**24**	**25**	**24**	**23**	**26**	**38**	**26**	**24**	**29**	**27**
TOTAL	**3,873**	**3,936**	**3,804**	**4,034**	**3,748**	**4,043**	**4,225**	**4,381**	**4,234**	**3,948**

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.

Local Government Services Completed Projects by Type
Schedule 5

Auditor of State of Ohio

Local Government Services Completed Projects by Type

Project Type	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
GAAP Compilations:										
GPFS/CAFR Under GASB No. 34	61	62	65	61	60	59	65	62	65	61
Basic Financial Statements Under GASB No. 34	166	168	172	171	177	179	161	163	156	156
Consultation/Supervision Only	20	21	26	30	30	39	34	33	27	28
Cash Basis	55	57	46	50	51	43	48	44	42	37
Fiscal Emergency/Watch/Caution	67	73	83	72	76	81	77	78	74	67
Reconciliations & Reconstructions	22	13	18	8	11	11	14	12	16	14
Special Projects	19	21	19	9	7	3	1	5	10	0
General Assistance, Training	7	10	24	21	28	24	19	21	36	14
Manuals	4	4	3	4	3	5	5	5	5	5
UAN Monitoring	26	25	25	33	37	39	40	30	0	0
TOTAL	**447**	**454**	**481**	**459**	**480**	**483**	**464**	**453**	**431**	**382**

Source: Local Government Services, Auditor of State of Ohio

Number of Employees by Division
Schedule 6

Auditor of State of Ohio

Number of Employees by Division

	Fiscal Year Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Administration	44	37	44	47	44	61	70	75	75	73
Audit	569	593	539	537	575	579	616	631	661	646
Fraud and Investigative Audits	24	17	44	43	42	36	39	36	36	33
Information Technology	53	51	53	53	53	46	45	46	44	49
Legal	7	10	8	10	12	10	14	14	14	14
Local Government Services	52	51	52	54	53	56	57	59	67	60
Ohio Performance Team	34	37	30	36	44	35	29	45	53	51
TOTAL	**783**	**796**	**770**	**780**	**823**	**823**	**870**	**906**	**950**	**926**

Source: Auditor of State of Ohio

Notes:
Table includes full-time employees, part-time employees, interns and fellowships.

Regional Office Directory
Schedule 7

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	**Mark Long, MBA, 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 Steutzer, 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	**Donna Waldron, CPA, 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	**Dave Shoemaker, CPA, Chief Auditor**	
	743 E. State St. Athens Mall, Suite B Athens, 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	**Michael Botkin, 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	

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