

LEASE REVENUE BONDS GOVERNED BY OHIO
REVISED CODE CHAPTER 154
(STATE OF OHIO CHAPTER 154 BONDS)

Financial Statements
and
Supplementary Financial Information
For the year ended June 30, 2007

And Independent Auditors' Report Thereon



Mary Taylor, CPA
Auditor of State

Members of the Ohio Public Facilities Commission
Treasurer of State Lease Revenue Bonds
30 East Broad Street, 9th Floor
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the Treasurer of State Lease Revenue Bonds, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Treasurer of State Lease Revenue Bonds is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 5, 2007

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**STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INSIGHT ■ INNOVATION ■ EXPERIENCE

INDEPENDENT AUDITORS' REPORT

Treasurer of State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the Debt Service Funds as held in the name of the Treasurer of the State of Ohio (the Funds) of the Higher Education Capital Facilities, Mental Health Capital Facilities, Parks and Recreation Capital Facilities, and Cultural and Sports Capital Facilities Lease Revenue Bonds Governed by the Ohio Revised Code Chapter 154 (the Obligations), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Treasurer of State's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Treasurer of the State of Ohio, which is part of the reporting entity of the State of Ohio, as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the Funds as of June 30, 2007, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, management affected a change in the application of accounting principle with respect to the presentation of leases receivable. Accordingly, the Fund's net assets as of July 1, 2006 were restated to reflect this change.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2007 on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to

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describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's basic financial statements. The supplemental schedules on pages 15 through 28, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Schneider Dams - B. Au." The signature is written in a cursive, flowing style.

Columbus, Ohio
October 11, 2007

STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
Management's Discussion & Analysis
As of and For the Year Ended June 30, 2007
(UNAUDITED)

This section of the annual financial report for the Chapter 154 Lease Revenue Obligations presents management's discussion and analysis of financial performance during the year ended June 30, 2007. The management's discussion and analysis section should be read in conjunction with the Chapter 154 Lease Revenue Obligations debt service funds' financial statements, which follow. Chapter 154 refers to a chapter in the Ohio Revised Code (Ohio's statutes) entitled, *Financing for Certain Capital Facilities*.

FINANCIAL HIGHLIGHTS

- As of June 30, 2007, total debt service fund assets exceeded liabilities by \$15.7 million. The total combined ending fund balance, which is reserved for debt service, increased by \$8.7 million during fiscal year 2007.
- For fiscal year 2007, other financing sources from lease principal payments from state agency-lessees totaled \$253.3 million, and lease interest revenue was reported at \$60.9 million.
- During fiscal year 2007, the Treasurer of State issued \$55 million in new bonds with a total premium of \$1.1 million and \$70.5 million in advance refunding bonds with a total premium of \$4.7 million. In addition, \$244.6 million in bond principal and \$61.7 million in bond interest were paid to bondholders.

OVERVIEW OF THE FUND FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Chapter 154 Lease Revenue Obligations debt service funds' financial statements. The fund financial statements include a Balance Sheet, a Statement of Revenues, Expenditures and Changes in Fund Balances, and accompanying notes.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Governmental fund financial statements have a focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The Treasurer of State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All four of the debt service funds listed below fall under the governmental fund classification.

- Higher Education Capital Facilities Bond Service Fund
- Mental Health Facilities Bond Service Fund
- Parks and Recreation Facilities Bond Service Fund
- Cultural and Sports Facilities Bond Service Fund

Debt service funds, by definition, account for resources accumulated and payments made for principal and interest on long-term debt. The financial statements for the funds listed above can be found on pages 8 and 9 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 10 to 14 of this report.

In addition, supplementary financial information follows the notes. Supplementary financial information, which can be found on pages 15 to 28, provides additional information that is considered to be useful to certain users of the financial statements.

As discussed in Note 2 to the financial statements, the beginning fund balances of the debt service funds have been restated, as of July 1, 2006, to reflect management's change in the application of accounting principle with respect to the presentation of leases receivable. Management believes that leases receivable, including both the principal and interest portions, should be presented as assets and the offsetting deferrals as liabilities on the balance sheet, as this provides more meaningful information to users of the fund financial statements in conformity with governmental accounting standards. The effect of this change was to increase the July 1, 2006, fund balance by approximately \$4 million.

(Continued)

STATE OF OHIO
 CHAPTER 154 LEASE REVENUE OBLIGATIONS
 Management's Discussion & Analysis
 As of and For the Year Ended June 30, 2007
 (UNAUDITED)

FINANCIAL ANALYSIS OF THE CHAPTER 154 LEASE REVENUE OBLIGATIONS DEBT SERVICE FUNDS

A comparative balance sheet analysis follows:

**Balance Sheet
 Comparative Analysis**
(Dollars in 000s)

	As of 06/30/07	As of 06/30/06 (as restated)	Percentage Change
ASSETS:			
Cash and Investments.....	\$ 224	\$ 3,052	(92.66)%
Receivable from State Agencies:			
Lease Principal.....	1,162,595	1,351,165	(13.96)
Lease Interest.....	10,114	8,423	20.08
Total Assets.....	\$1,172,933	\$1,362,640	(13.92)
LIABILITIES:			
Accounts Payable & Other Liabilities.....	\$ 28	\$ 22	27.27
Deferred Revenue.....	1,157,203	1,355,565	(14.63)
Total Liabilities.....	1,157,231	1,355,587	(14.63)
FUND BALANCE:			
Reserved for Debt Service.....	15,702	7,053	122.63
Total Liabilities and Fund Balance.....	\$1,172,933	\$1,362,640	(13.92)

The significant 122.63 percent increase in fund balance since fiscal year 2006 is primarily attributable to the recognition of \$8.73 million in lease principal due from the Ohio Board of Regents. This balance was accrued to the debt service fund as an "other financing source," since it was both measurable and available for collection within 60 days of June 30, 2007. There was no similar accrual relative to the leases receivable from the Ohio Board of Regents, as of June 30, 2006, because no lease principal was collectible from the Board of Regents within 60 days of year-end.

The following tables compare debt service fund revenues, expenditures, and other financing sources/(uses) reported for fiscal year 2007 with fiscal year 2006 results.

**Revenue
 Comparative Analysis**
(Dollars in 000s)

	Fiscal Year 2007	Percent of Total 2007 Revenue	Fiscal Year 2006 (as restated)	Percentage Change
Lease Interest from State Agencies.....	\$60,919	98.62%	\$69,127	(11.87)%
Administrative Fees.....	781	1.26	875	(10.74)
Other Interest Income.....	73	.12	144	(49.31)
Total Revenue.....	\$61,773	100.00%	\$70,146	(11.94)

As the above table indicates, for fiscal year 2007, 98.62 percent of debt service fund revenues were comprised of lease interest. Lease interest from state agencies primarily decreased for fiscal year 2007 due to the corresponding decrease in debt service expenditures for bond interest paid.

(Continued)

STATE OF OHIO
 CHAPTER 154 LEASE REVENUE OBLIGATIONS
 Management's Discussion & Analysis
 As of and For the Year Ended June 30, 2007
 (UNAUDITED)

**Expenditures
 Comparative Analysis**
(Dollars in 000s)

	Fiscal Year 2007	Percent of Total 2007 Expenditures	Fiscal Year 2006	Percentage Change
Administrative Costs.....	\$ 799	.26%	\$ 808	(1.11)%
Debt Service:				
Principal.....	244,600	79.31	230,830	5.97
Interest	61,724	20.01	70,944	(13.00)
Bond Issue Costs	1,304	.42	773	68.69
Total Expenditures	<u>\$308,427</u>	<u>100.00%</u>	<u>\$303,355</u>	1.67

As the table above shows, 99.74 percent of total reported expenditures for fiscal year 2007 were for debt service payments. Bond issue costs increased significantly because a total of five bond issuances, including three advance refunding issues, were completed during fiscal year 2007 versus two bond issuances in fiscal year 2006. Interest expenditures for fiscal year 2007 came in lower than reported interest expenditures for fiscal year 2006 by 13 percent, due to the declining balance of outstanding bond principal. Outstanding bond principal was \$1.18 billion, as of June 30, 2007, versus \$1.35 billion, as of June 30, 2006.

**Other Financing Sources/(Uses)
 Comparative Analysis**
(Dollars in 000s)

	Fiscal Year 2007	Fiscal Year 2006 <i>(as restated)</i>	Percentage Change
Lease Principal Payments from State Agencies.....	\$253,280	\$232,600	8.89%
Bond Proceeds:			
Principal.....	55,000	60,000	(8.33)
Premium	1,132	1,502	(24.63)
Refunding Bond Proceeds:			
Principal.....	70,480	—	100.00
Premium	4,732	—	100.00
Payment to Refunding Escrow Agent.....	(74,485)	—	100.00
Financing Provided to State Agencies Under Leases	<u>(54,836)</u>	<u>(60,921)</u>	(9.99)
Total Other Financing Sources/(Uses).....	<u>\$255,303</u>	<u>\$233,181</u>	9.49

During fiscal year 2007, the Treasurer of State (Treasurer) issued Mental Health Capital Facilities Bond Series II-2006A and Cultural and Sports Capital Facilities Bond Series 2006A in the amounts of \$30 million and \$25 million, respectively. The two new bond issues, totaling \$55 million, represent an 8.33 percent decrease in comparison with the previous fiscal year when the Treasurer issued a total of \$60 million in new Chapter 154 lease revenue bonds. The bond issues in 2007 provided \$54.8 million in new lease financing to state agencies for construction projects as authorized by appropriation acts of the Ohio General Assembly, representing a 9.99 percent decrease when compared with \$60.9 million in new lease financing provided during fiscal year 2006.

Additionally, in December 2006, the Treasurer advance refunded \$69.5 million in outstanding Chapter 154 lease revenue bond issues, including \$26.8 million in Mental Health Capital Facilities Refunding Bonds (Series II-

(Continued)

STATE OF OHIO
 CHAPTER 154 LEASE REVENUE OBLIGATIONS
 Management's Discussion & Analysis
 As of and For the Year Ended June 30, 2007
 (UNAUDITED)

2006B), \$15.4 million in Parks and Recreation Capital Facilities Refunding Bonds (Series II-2006A), and \$28.3 million in Cultural and Sports Capital Facilities Refunding Bonds (Series 2006B). As a result of the advance refunding issues, the Treasurer made a \$74.5 million payment of the net bond proceeds (after payment of underwriting fees and bond issue costs) to a bond escrow agent to provide for all future principal and interest payments to defease the old bonds *in substance*. During the previous fiscal year, no advance refundings occurred.

BUDGETARY HIGHLIGHTS

None of the debt service funds presented in the fund financial statements is required to have a legally adopted budget, and therefore, no budgetary comparisons have been included in this report.

ECONOMIC FACTORS

- On September 18, 2007, the Federal Open Market Committee at the Federal Reserve decided to lower the federal funds rate 50 basis points to 4.75 percent. This was the first interest rate cut in four years. Interest rates generally affect the pricing of new bond issues.
- The balance of Chapter 154 Lease Revenue Bonds authorized, but unissued, as of June 30, 2007, was as follows:

Bond Type	Bonds Authorized, but Unissued (Dollars in 000s)
Higher Education Facilities Bonds	\$ —
Mental Health Facilities Bonds	66,915
Parks and Recreation Facilities Bonds	64,000
Cultural and Sports Facilities Bonds	71,310

CONTACTING THE TREASURER OF STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the financial activities of the Chapter 154 Lease Revenue Obligations. If you have questions about this report or need additional financial information, please contact Jake Wozniak, Director of Debt Management, Ohio Treasurer of State's Office, 30 East Broad Street, 9th Floor, Columbus, Ohio 43215.

CHAPTER 154
LEASE REVENUE OBLIGATIONS
DEBT SERVICE FUNDS
FINANCIAL STATEMENTS

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Balance Sheet
As of June 30, 2007

(Dollars in 000s)

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks and Recreation Facilities Bond Service	Cultural and Sports Facilities Bond Service	Total Debt Service Funds
ASSETS:					
Cash.....	\$ 3	\$ 48	\$ 5	\$ 6	\$ 62
Investments.....	43	15	2	102	162
Receivable from State Agencies:					
Lease Principal.....	635,600	239,040	106,670	181,285	1,162,595
Lease Interest.....	5,613	1,690	777	2,034	10,114
TOTAL ASSETS.....	\$641,259	\$240,793	\$107,454	\$183,427	\$1,172,933
LIABILITIES:					
Accounts Payable	\$ —	\$ —	\$ —	\$ 2	\$ 2
Matured Bonds.....					
and Interest Payable	14	12	—	—	26
Deferred Revenue.....	628,976	237,984	106,924	183,319	1,157,203
TOTAL LIABILITIES.....	628,990	237,996	106,924	183,321	1,157,231
FUND BALANCES:					
Reserved for Debt Service	12,269	2,797	530	106	15,702
TOTAL FUND BALANCES.....	12,269	2,797	530	106	15,702
TOTAL LIABILITIES AND FUND BALANCES.....	\$641,259	\$240,793	\$107,454	\$183,427	\$1,172,933

The notes to the financial statements are an integral part of this statement.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007
(Dollars in 000s)

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks and Recreation Facilities Bond Service	Cultural and Sports Facilities Bond Service	Total Debt Service Funds
REVENUES:					
Lease Interest from State Agencies	\$37,397	\$ 11,432	\$4,675	\$7,415	\$60,919
Administrative Fees.....	50	29	30	672	781
Other Interest Income.....	9	18	2	44	73
TOTAL REVENUES.....	37,456	11,479	4,707	8,131	61,773
EXPENDITURES:					
Administrative Costs.....	47	29	27	696	799
Debt Service:					
Principal.....	163,340	37,940	13,745	29,575	244,600
Interest	37,420	11,498	4,660	8,146	61,724
Bond Issue Costs	—	589	161	554	1,304
TOTAL EXPENDITURES.....	200,807	50,056	18,593	38,971	308,427
DEFICIENCY OF REVENUES UNDER EXPENDITURES.....	(163,351)	(38,577)	(13,886)	(30,840)	(246,654)
OTHER FINANCING SOURCES/(USES):					
Lease Principal Payments from State Agencies	172,065	37,895	13,745	29,575	253,280
Bond Proceeds:					
Principal.....	—	30,000	—	25,000	55,000
Premium.....	—	173	—	959	1,132
Refunding Bond Proceeds:					
Principal.....	—	26,775	15,410	28,295	70,480
Premium.....	—	1,987	717	2,028	4,732
Payment to Refunding Escrow Agent....	—	(28,482)	(15,967)	(30,036)	(74,485)
Financing Provided to State Agencies Under Leases:					
Mental Health Capital Facilities	—	(29,836)	—	—	(29,836)
Cultural and Sports Facilities.....	—	—	—	(25,000)	(25,000)
TOTAL OTHER FINANCING SOURCES/(USES).....	172,065	38,512	13,905	30,821	255,303
NET CHANGE IN FUND BALANCES ..	8,714	(65)	19	(19)	8,649
FUND BALANCE, JULY 1 (as restated) ..	3,555	2,862	511	125	7,053
FUND BALANCE, JUNE 30	\$12,269	\$ 2,797	\$ 530	\$ 106	\$ 15,702

The notes to the financial statements are an integral part of this statement.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying debt service fund financial statements for the Chapter 154 Lease Revenue Obligations have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which are included in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Significant accounting policies are as follows.

A. Reporting Entity

In 1969, the Ohio General Assembly enacted Chapter 154, Ohio Revised Code, pursuant to Section 2i of Article VIII of the Ohio Constitution. This constitutional provision authorizes the issuance of revenue and other obligations, the owners and holders of which are not given the right to have excises or taxes levied by the General Assembly for payment of principal or interest.

The Ohio Public Facilities Commission (Commission) was created at that time and was initially authorized to issue obligations of the State of Ohio to pay costs of capital facilities for (a) state-supported and state-assisted higher education institutions, (b) mental hygiene and retardation, and (c) parks and recreation. Under Section 154.23, Ohio Revised Code, enacted in 1980, the Commission was also authorized to issue obligations to pay costs of capital facilities for the housing of branches and agencies of state government. The General Assembly, however, never granted specific dollar authorization to the Commission to issue obligations for this additional purpose, and in 2000, Section 154.23, Ohio Revised Code, was repealed.

Effective on September 14, 2000, Amended Substitute House Bill 640 reassigned the issuing authority and functions of the Commission with respect to the obligations to the Ohio Treasurer of the State (Treasurer). The Treasurer succeeded the Commission as issuer with all responsibilities and obligations under the bond proceedings relative to the previously issued obligations. Under the authority of this legislation, the Treasurer has the authority to issue obligations only in such amounts as are previously authorized by the General Assembly, and the proceeds are to be applied only to capital improvements designated by or pursuant

to action by the General Assembly. The financing arrangements for such obligations for capital improvements so designated involve separate bond proceedings and lease arrangements between the Commission (its only remaining responsibility relating to the obligations) and the respective state agencies, including the Ohio Board of Regents for higher education facilities, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities for mental health facilities, and the Department of Natural Resources for parks and recreation facilities.

Pursuant to House Bill 16, which became effective on July 1, 2005, all matters relative to the issuance of obligations for the financing of Cultural and Sports Facilities, including all related obligations previously issued by the Ohio Building Authority under Chapter 152, Ohio Revised Code, were transferred to the Treasurer, including the lease agreements with the Cultural Facilities Commission. Subsequent to July 1, 2005, all new issuances of Cultural and Sports Facilities bonds were to be governed by the provisions of Chapter 154, Ohio Revised Code, as previously described above.

The Treasurer of State, a constitutional member of the State's executive branch who is separately elected, is considered to be part of the primary government within the State of Ohio's financial reporting entity. In addition, the Ohio Public Facilities Commission, a legally separate organization from the State, meets the definition of a component unit of the State of Ohio's financial reporting entity, since the voting majority of its governing board is comprised of state elected and appointed officials, and the Commission provides services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefits the State. Consequently, the debt service fund financial statements presented herein are also included in the State of Ohio's Comprehensive Annual Financial Report (CAFR) and are reported as part of the State of Ohio's primary government, as explained further in NOTE 5.

B. Fund Accounting and Basis of Presentation

The Debt Management Section of the Treasurer of State's Office uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transactions related to certain functions or activities are reported in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information about the debt service activities of the Chapter Lease Revenue Obligations at a more detailed level. In governmental accounting, debt service funds are classified as governmental funds.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

The following debt service funds are presented in separate columns in the fund financial statements.

Higher Education Facilities Bond Service Fund — This fund accounts for the debt service activities of the Higher Education Facilities Lease Revenue Bonds issued under the authority of Chapter 154, Ohio Revised Code.

Mental Health Facilities Bond Service Fund — This fund accounts for the debt service activities of the Mental Health Lease Revenue Bonds issued under the authority of Chapter 154, Ohio Revised Code.

Parks and Recreation Facilities Bond Service Fund — This fund accounts for the debt service activities of the Parks and Recreation Facilities Lease Revenue Bonds issued under the authority of Chapter 154, Ohio Revised Code.

Cultural and Sports Facilities Bond Service Fund — This fund accounts for the debt service activities of the Cultural and Sports Facilities Lease Revenue Bonds issued under the authority of Chapter 154, Ohio Revised Code.

C. Measurement Focus and Basis of Accounting

The debt service funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The debt service funds use the modified accrual basis of accounting. On a modified accrual basis,

revenue, including lease interest, and other financing sources, as pertaining to lease principal receipts, are recorded in the fiscal year in which the resources are measurable and become available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues and other financing sources are considered to be available when they are collectible within 60 days of the fiscal year-end.

In governmental fund financial statements, leases receivable and deferred amounts are used to account for leases. Only the portion of lease receivables that represents other financing sources that are measurable and available are recognized in the debt service funds. The remainder, or the noncurrent portion, of the receivable is deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as amortization, are not recognized in the debt service funds.

Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made in the subsequent fiscal year, soon after June 30 (i.e., generally within less than one month of year-end).

D. Budget

None of the debt service funds presented in the fund financial statements is required to have a legally adopted budget, and therefore, no budgetary comparisons have been included in this report.

E. Leases

Receivables are reported for principal and interest due under lease agreements between the Ohio Public Facilities Commission and the state agencies that are required to make the payments. Lease principal and interest receivable not collectible within 60 days are reported as deferred revenue. Additional disclosures on lease-related receivables can be found in NOTE 4.

F. Fund Balance

Fund balance reserved for debt service represents amounts that are legally segregated for debt service.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Notes to the Financial Statements

As of and For the Year Ended June 30, 2007

(Dollars in thousands)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of

assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

NOTE 2 — RESTATEMENTS

Restatements of fund balance, as of June 30, 2006, are detailed by debt service fund below.

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks & Recreation Bond Service	Cultural & Sports Facilities Bond Service	Total Debt Service Funds
Fund Balance, as reported, June 30, 2006.....	\$ 1,752	\$ 642	\$ 511	\$ 125	\$ 3,030
Change in the Application of Accounting Principle:					
<i>Increases in Assets:</i>					
Receivable from State Agencies:					
Lease Principal.....	798,940	246,835	119,765	185,625	\$1,351,165
Lease Interest.....	4,720	1,170	339	2,194	8,423
	<u>803,660</u>	<u>248,005</u>	<u>120,104</u>	<u>187,819</u>	<u>1,359,588</u>
<i>Increases in Liabilities:</i>					
Deferred Revenue	(801,857)	(245,785)	(120,104)	(187,819)	(1,355,565)
Fund Balance, as restated, July 1, 2006	<u>\$ 3,555</u>	<u>\$ 2,862</u>	<u>\$ 511</u>	<u>\$ 125</u>	<u>\$ 7,053</u>

The beginning fund balances of the debt service funds have been restated, as of July 1, 2006, to reflect management's change in the application of accounting principle with respect to the presentation of leases receivable. Management believes that leases receivable from state agencies, including

both the principal and interest portions, should be presented as assets and the offsetting deferrals as liabilities on the balance sheet, as this provides more meaningful information to users of the fund financial statements in conformity with governmental accounting standards.

NOTE 3 — DEPOSITS AND INVESTMENTS

As of June 30, 2007, the total carrying amount of deposits was \$62; the bank balance of \$49 was entirely insured by the Federal Deposit Insurance Corporation.

Investments are carried at amortized cost, which approximates market value. Investments are restricted to U.S. government or agency obligations thereof (and funds consisting exclusively of, and repurchase agreements secured by, those obligations), obligations of the State of Ohio or any political subdivision thereof, the State Treasury Asset Reserve of Ohio (STAR Ohio), and certificates of deposit of any national bank located in Ohio and certain other banks incorporated in Ohio and subject

to inspection by the Superintendent of Institutions. It is the Treasurer's policy to take delivery of all investments, which are then placed on deposit with trustees. Investment income is credited to the debt service fund from which the investment is made.

During fiscal year 2007, investments were placed with STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund. STAR Ohio is an investment pool managed by the Treasurer of State, which allows Ohio governments to pool funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a7 of the Investment Company Act

NOTE 3 — DEPOSITS AND INVESTMENTS (Continued)

of 1940. Investments in STAR Ohio are valued at the pool's share price, which is the price the investment could be sold for on June 30, 2007. The Fifth Third U.S. Treasury Money Market Fund is a mutual fund. The fund invests all of its assets in high-quality, short-term obligations issued by the U.S. Treasury, which are guaranteed as to principal and interest by the U.S. Government, repurchase agreements collateralized by U.S. Treasury securities, and shares of money market investment companies that invest exclusively in these securities.

Investment balances held, as of June 30, 2007, are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
STAR Ohio	\$ 60	\$ 60
Fifth Third U.S. Treasury Money Market Fund	102	102
Total.....	<u>\$162</u>	<u>\$162</u>

As of June 30, 2007, both the STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund were rated AAAM by Standard and Poor's, and the weighted average maturities of STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund were 60 days or less and 18 days, respectively.

As of June 30, 2007, the extent of concentration of investment balances held for each debt service fund and in total by investment is detailed below.

<u>Debt Service Fund</u>	<u>STAR Ohio</u>	<u>Fifth Third U.S. Treasury Money Market Fund</u>	<u>Total Investments</u>
Higher Education	100%	—	100%
Mental Health.....	100%	—	100%
Parks and Recreation	100%	—	100%
Total Debt Service.....	37%	63%	100%

NOTE 4 — LEASES

The primary sources of payments, as contemplated under the respective bond and note proceedings, for meeting bond interest and principal requirements and establishing and maintaining any funded "required reserve" and meeting any note interest and principal (partial) requirements, are rentals paid to the Treasurer by the Ohio Board of Regents, the Ohio Department of Mental Health and the Ohio Department of Mental Retardation and Developmental Disabilities, the Ohio Department of Natural Resources, and the Ohio Cultural Facilities Commission, from moneys appropriated for such purposes by the General Assembly.

The respective obligations of each of the five state agencies to make such rental payments pursuant to the respective leases with the Ohio Public Facilities Commission are expressly made subject to the availability of appropriations for such purposes. Each lease terminates when the Treasurer has paid or retired all of the bonds or bond anticipation notes contemplated by that lease for the respective category of facilities.

For the 2006-07 biennium, the 126th General Assembly appropriated the amounts necessary from the General Revenue Fund to meet the payments

required under such leases, not exceeding \$401,415 for higher education facilities, \$94,260 for mental health facilities, \$39,662 for parks and recreation facilities, and \$76,373 for cultural and sports facilities. Of these appropriated amounts, the following have been paid to the Treasurer during fiscal year 2007: \$199,028 with respect to higher education, \$48,801 with respect to mental health facilities, \$17,897 with respect to parks and recreational facilities, and \$36,990 with respect to cultural and sports facilities. Such amounts were paid into the Treasurer's respective Bond Service Funds that are established to receive rental and other payments and to make payments of bond service charges (principal and interest).

There were additional unappropriated funds available to supplement the rental payments required under the respective bond proceedings for the payment of the lease revenue obligations. These funds were comprised of interest earnings, accrued interest, and original issue premium on bond sales.

The respective bond service accounts under the trust agreements for the Mental Health Capital Facilities Bonds, Higher Education Capital Facilities Bonds, Parks and Recreation Capital Facilities

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Notes to the Financial Statements
(Dollars in thousands)

As of and For the Year Ended June 30, 2007

NOTE 4— LEASES (Continued)

Bonds, and the Cultural and Sports Capital Facilities Bonds are restricted to payments of principal and interest on the bonds issued and outstanding under those respective trust agreements. No debt service reserve funds have been established for the outstanding Chapter 154 lease revenue bonds.

As of June 30, 2007, future payments to be received from the state agencies responsible for making the requisite payments under the lease agreements are detailed below by debt service fund.

**Schedule of Future Payments
Under Lease Agreements with State Agencies
as of June 30, 2007**

Year Ending June 30,	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks & Recreation Facilities Bond Service	Cultural & Sports Facilities Bond Service	Total Debt Service Funds
2008.....	\$203,128	\$ 46,725	\$ 18,929	\$ 35,895	\$ 304,677
2009.....	135,967	36,314	14,544	31,630	218,455
2010.....	124,416	37,596	15,274	22,112	199,398
2011.....	107,852	32,848	11,858	22,106	174,664
2012.....	83,117	27,440	12,158	21,827	144,542
2013-2017.....	63,371	93,335	47,128	71,084	274,918
2018-2022.....	—	15,849	10,799	18,561	45,209
	717,851	290,107	130,690	223,215	1,361,863
Amount Representing Interest.....	(82,251)	(51,067)	(24,020)	(41,930)	(199,268)
Total.....	<u>\$635,600</u>	<u>\$239,040</u>	<u>\$106,670</u>	<u>\$181,285</u>	<u>\$1,162,595</u>

A summary on the deferred portion of leases receivable by debt service fund, as of June 30, 2007, is presented in the table below.

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks & Recreation Facilities Bond Service	Cultural & Sports Facilities Bond Service	Total Debt Service Funds
Lease Principal.....	\$626,875	\$237,315	\$106,670	\$181,285	\$1,152,145
Lease Interest.....	2,101	669	254	2,034	5,058
Total Deferred Revenue, as of June 30, 2007.....	<u>\$628,976</u>	<u>\$237,984</u>	<u>\$106,924</u>	<u>183,319</u>	<u>\$1,157,203</u>

NOTE 5 — CONSOLIDATION OF DEBT SERVICE FUND BALANCES IN THE STATE OF OHIO'S CAFR

The Ohio Office of Budget and Management will consolidate the accompanying financial statements of the debt service funds in the financial statements presented in the State of Ohio's Comprehensive Annual Financial Report (CAFR), as of and for the year ended June 30, 2007.

deferred revenue balances will not be reported on the State's balance sheet for governmental funds, since the lease agreements are between organizations included within the State's primary government.

When the debt service funds' financial statements are consolidated at the state level, the leases receivable, both principal and interest, and

The accounting treatment at the state level is in conformity with the guidance provided in Section L20 of the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

SUPPLEMENTARY INFORMATION

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Net Assets-Accrual Basis
As of June 30, 2007
(Dollars in 000s)

ASSETS:	
Cash.....	\$ 62
Investments.....	162
Receivable from State Agencies:	
Leases.....	1,162,595
Unamortized Lease Premium/Discount, Net.....	9,833
Interest.....	10,114
Unamortized Bond Issue Costs.....	4,827
TOTAL ASSETS.....	1,187,593
 LIABILITIES:	
Accounts Payable.....	2
Matured Bonds and Interest Payable.....	26
Bond Interest Payable.....	10,216
Bonds Payable, net of deferred refunding amounts, premiums and discount:	
Due in One Year.....	253,746
Due in More Than One Year.....	923,509
TOTAL LIABILITIES.....	1,187,499
 NET ASSETS:	
Restricted for Debt Service.....	94
TOTAL NET ASSETS.....	\$ 94

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Activities-Accrual Basis
For the Year Ended June 30, 2007
(Dollars in 000s)

	Total	Higher Education Facilities	Mental Health Facilities	Parks and Recreation Facilities	Cultural and Sports Facilities
EXPENSES:					
Administrative	\$ 799	\$ 47	\$ 29	\$ 27	\$ 696
Amortization of Bond Issue Costs	1,085	457	335	120	173
Interest on Debt	57,054	34,621	10,588	4,555	7,290
TOTAL EXPENSES.....	58,938	35,125	10,952	4,702	8,159
PROGRAM REVENUES:					
Charges for Services ¹	58,889	35,178	10,860	4,679	8,172
Restricted Investment Income	74	9	18	2	45
TOTAL PROGRAM REVENUES	58,963	35,187	10,878	4,681	8,217
NET EXPENSES AND CHANGES IN NET ASSETS	25	62	(74)	(21)	58
NET ASSETS, JULY 1 (as restated)² ...	69				
NET ASSETS, JUNE 30.....	\$ 94				

¹ Includes interest charges from leases receivable (due from state agencies) and administrative fees.

² The restatement of net assets, as of June 30, 2006, is detailed below.

Net Deficit, as reported, June 30, 2006.....	(\$1,559)
Change in Application of Accounting Principle:	
Increase in Assets:	
Receivable from State Agencies:	
Unamortized Lease Premium/Discount, Net.....	4,669
Corrections:	
Decrease in Assets:	
Receivable from State Agencies:	
Lease Interest.....	(2,874)
Increases in Liabilities:	
Bonds Payable:	
Unamortized Bond Premium	(74)
Deferred Refunding Amount.....	(93)
	(167)
Net Assets, as restated, July 1, 2006.....	\$ 69

Net assets, as of July 1, 2006, have been restated to reflect 1) management's change in the application of accounting principle with respect to presentation of premiums on leases receivable and 2) corrections to previously reported lease interest receivable, unamortized bond premium, and deferred refunding loss balances.

With regard to the change in the application of accounting principle, management believes that premiums should be recorded for all leases receivable associated with debt issues, as this will result in a more accurate matching of revenues and expenses. The effect of the change in the application of accounting principle was to increase net assets by approximately \$4,669. Additionally, the effect of the corrections made to previously reported lease interest receivable, unamortized bond premium, and deferred refunding loss balances was to decrease net assets by \$3,041. The net effect of all adjustments just discussed increased net assets, as of July 1, 2006, by \$1,628.

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Reconciliation Schedule Between the Balance Sheet
and the Schedule of Net Assets
As of June 30, 2007
(Dollars in 000s)

Fund Balance per Debt Service Funds' Balance Sheet..... \$ 15,702

Amounts reported in the Schedule of Net Assets are different from the Balance Sheet because:

Some of the revenues and other financing sources are collectible after year-end, but are not available soon enough to pay for the current period's (i.e., within 60 days of year-end) expenditures, and therefore, are deferred in the funds.

Leases Receivable from State Agencies:

Principal	1,152,145
Interest.....	<u>5,058</u>
	<u>1,157,203</u>

The following are not financial resources, and therefore are not reported in the fund.

Unamortized Lease Premium/Discount, Net	9,833
Unamortized Bond Issue Costs	<u>4,827</u>
	<u>14,660</u>

The following liabilities are not due and payable in the current period, and therefore, are not reported in the debt service funds.

Bonds Payable.....	(1,177,255)
Bond Interest Payable.....	<u>(10,216)</u>
	<u>(1,187,471)</u>

Net Assets per Schedule of Net Assets..... \$ 94

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Reconciliation Schedule Between
the Statement of Revenues, Expenditures and Changes in Fund Balances
and the Schedule of Activities
As of June 30, 2007
(Dollars in 000s)

Net Change in Fund Balance per Debt Service Funds'
Statement of Revenues, Expenditures and Changes in Fund Balances **\$ 8,649**

Amounts reported in the Schedule of Activities is different from the Debt Service Funds' Statement of Revenue, Expenditures and Changes in Fund Balances because:

Lease interest revenues and other financing sources from lease principal receipts are deferred in the debt service funds. During fiscal year 2007, deferred revenue changed by the following amounts.

Lease Principal	(197,250)
Lease Interest	(1,112)
	(198,362)

Increases and decreases in unamortized lease premiums/discounts are not reported in the debt service funds	(2,895)
--	---------

Debt proceeds provide current financial resources to the debt service funds, but issuing debt increases long-term liabilities in the Schedule of Net Assets. In the current period, proceeds were received from

Bonds.....	(55,000)
Refunding Bonds	(70,480)
Premiums.....	(5,863)
Deferred Refunding Loss.....	3,824
	(127,519)

Repayments of long-term debt are reported as expenditures in the debt service funds, but the repayments reduce long-term liabilities in the Schedule of Net Assets. During fiscal year 2007, these amounts consisted of:

Scheduled Debt Principal Retirements	244,600
Bond Defeasances.....	69,450
	314,050

Some expenses reported in the Schedule of Activities are not reported as expenditures in the debt service funds. Under the modified accrual basis of accounting used for debt service funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Schedule of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the changes in the following balances:

Increases/(Decreases) in Unamortized Bond Issue Costs.....	(264)
Decreases in Bond Interest Payable.....	1,080
Amortization of Bond Premiums/Accretion of Bond Discounts, Net	9,071
Decrease in Bond Premium on Refunded Bonds	1,697
Amortization of Deferred Refunding Loss	(5,482)
	6,102

Change in Net Assets per Schedule of Activities **\$ 25**

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Future Payments
Under Lease Agreements with State Agencies
As of June 30, 2007
(Dollars in 000s)

Year Ending June 30,	Higher Education Facilities	Mental Health Facilities	Parks and Recreation Facilities	Cultural and Sports Facilities	Total
2008	\$203,128	\$ 46,725	\$ 18,929	\$ 35,895	\$ 304,677
2009	135,967	36,314	14,544	31,630	218,455
2010	124,416	37,596	15,274	22,112	199,398
2011	107,852	32,848	11,858	22,106	174,664
2012	83,117	27,440	12,158	21,827	144,542
2013-2017	63,371	93,335	47,128	71,084	274,918
2018-2022	—	15,849	10,799	18,561	45,209
	717,851	290,107	130,690	223,215	1,361,863
Amount Representing Interest	(82,251)	(51,067)	(24,020)	(41,930)	(199,268)
	635,600	239,040	106,670	181,285	1,162,595
Premium/Discount, Net...	4,334	2,695	(112)	2,916	9,833
Leases Receivable, as of June 30, 2007	\$639,934	\$241,735	\$106,558	\$184,201	\$1,172,428

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2007
(Dollars in 000s)

Outstanding Chapter 154 Lease Rental Obligations, as of June 30, 2007, are in the form of fully registered bonds that mature in various amounts and at various dates and bear interest payable semi-annually at various interest rates. The bonds mature after specified dates and are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity. The redemption price varies from 100 percent to 102 percent, dependent upon the terms of the particular series of the bonds and the redemption date.

As of June 30, 2007, the Chapter 154 Lease Obligations had the following credit ratings assigned by the major bond rating agencies:

	Fitch	Moody's	Standard & Poor's
Higher Education Facilities.....	AA	Aa2	AA
Mental Health Facilities.....	AA	Aa2	AA
Parks and Recreation Facilities.....	AA	Aa2	AA
Cultural & Sports Facilities.....	AA	Aa2	AA

Through June 30, 2007, the Ohio General Assembly has authorized issuance of Chapter 154 Lease Revenue Obligations, including bonds and bond anticipation notes for capital facilities, in the following amounts.

<u>Type of Bond</u>	<u>Amount</u>
Higher Education Facilities*.....	\$4,817,590
Mental Health Facilities.....	1,389,000
Parks and Recreation Facilities.....	377,000
Cultural and Sports Facilities.....	470,000
Total Authorization	<u>\$7,053,590</u>

* Includes transfers of subsequent issuing authority from special obligations (lease-rental) to general obligations for higher education capital facilities.

Details on bonds issued through June 30, 2007 are displayed in the following tables. Bond amounts issued in accordance with the above authorizations amounts are listed under the "Original Issues at Par" column. Bond issue authorization limits do not apply to advance refunding issues.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2007
(Dollars in 000s)

(Continued, page 2)

Higher Education Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2007
1970A.....	\$ 40,000	\$ —	08/01/70	06/01/92	6.167%	\$ —
1971A.....	50,000	—	05/01/71	05/01/94	5.095%	—
1972A.....	60,000	—	03/01/72	12/01/94	4.973%	—
1972B.....	75,000	—	08/01/72	11/01/93	5.274%	—
1973A.....	40,000	—	06/01/73	12/01/93	5.079%	—
1974A.....	45,000	—	04/01/74	11/01/96	5.560%	—
1974B.....	40,000	—	12/01/74	12/01/96	6.297%	—
1975A.....	30,000	—	06/01/75	06/01/90	6.527%	—
1976A.....	100,000	—	03/01/76	05/01/93	6.898%	—
1976B.....	70,000	—	10/01/76	11/01/96	5.882%	—
1977A.....	50,000	—	09/01/77	12/01/95	5.151%	—
1978A.....	60,000	—	03/01/78	12/01/95	5.305%	—
1978B.....	100,000	—	08/01/78	05/01/94	6.135%	—
1979A.....	65,000	—	06/01/79	06/01/94	5.922%	—
1980A.....	85,000	—	08/01/80	05/01/91	9.089%	—
1981A.....	45,000	—	03/01/81	06/01/92	10.017%	—
1982A.....	75,000	—	07/01/82	06/01/92	13.112%	—
1983A.....	90,000	—	04/01/83	06/01/93	9.001%	—
1984A.....	90,000	—	01/01/84	12/01/94	8.730%	—
1984B.....	115,000	—	09/01/84	11/01/95	9.714%	—
1985A.....	110,000	—	06/01/85	06/01/96	8.219%	—
1986A.....	110,000	—	02/01/86	11/01/96	8.151%	—
1986B.....	120,000	—	08/01/86	05/01/97	7.113%	—
1987A.....	120,000	—	04/01/87	05/01/97	6.427%	—
1987B.....	—	130,000	07/01/87	06/01/97	7.149%	—
1988A.....	120,000	—	01/01/88	11/01/97	6.986%	—
1988B.....	115,000	—	09/01/88	06/01/97	7.143%	—
1989A.....	115,000	—	04/01/89	05/01/97	7.410%	—
1989B.....	115,000	—	12/01/89	12/01/97	6.705%	—
II-1990A.....	115,000	—	08/01/90	05/01/98	6.864%	—
II-1991A.....	115,000	—	04/01/91	05/01/98	6.449%	—
II-1991B.....	115,000	—	10/01/91	12/01/06	6.057%	—
II-1992A.....	114,450	137,405	02/01/92	12/01/07	5.649%	—
II-1992B.....	115,000	—	07/01/92	11/01/07	5.559%	—
II-1992C.....	85,000	51,110	10/01/92	12/01/07	5.431%	—
II-1993A.....	121,280	84,520	06/01/93	06/01/08	4.867%	—
II-1993B.....	120,000	—	12/01/93	12/01/08	4.854%	—
II-1994A.....	120,850	132,150	03/01/94	12/01/08	4.484%	—
II-1994B.....	120,000	—	11/01/94	11/01/09	5.982%	—
II-1995A.....	139,765	26,635	04/01/95	05/01/10	5.396%	—
II-1995B.....	140,000	—	10/01/95	11/01/10	5.121%	—
II-1996A.....	150,000	—	02/01/96	11/01/10	5.627%	—
II-1996B.....	150,000	—	10/01/96	11/01/11	5.143%	—
II-1997A.....	149,885	132,415	04/01/97	05/01/12	5.066%	—
II-1997B.....	150,000	86,500	10/01/97	11/01/12	4.746%	9,700
II-1998A.....	146,360	107,840	03/01/98	12/01/12	4.522%	9,700
II-1998B.....	150,000	—	07/01/98	06/01/13	4.693%	9,700
II-1998C.....	150,000	—	12/01/98	06/01/13	4.414%	9,700
II-1999A.....	100,000	—	08/01/99	11/01/13	4.853%	12,000
II-2001A.....	—	394,495	04/01/01	12/01/11	4.251%	202,900
II-2002A.....	—	253,275	08/01/02	12/01/12	3.544%	176,860
II-2003A.....	—	36,065	02/01/03	06/01/09	3.225%	36,065
II-2004A.....	—	173,975	10/05/04	08/01/13	3.498%	168,975
Total.....	\$4,817,590	\$1,746,385				\$635,600

See Independent Auditor's Report.

(Continued)

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2007
(Dollars in 000s)

(Continued, page 3)

Mental Health Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2007
1970A.....	\$ 25,000	\$ —	08/01/70	12/01/92	6.201%	\$ —
1971A.....	50,000	—	08/01/71	06/01/91	6.056%	—
1975A.....	50,000	—	04/01/75	12/01/93	6.853%	—
1976A.....	45,000	—	04/01/76	12/01/93	6.360%	—
1976B.....	50,000	—	12/01/76	12/01/93	6.023%	—
1977A.....	50,000	—	12/01/77	12/01/96	5.231%	—
1978A.....	40,000	—	12/01/78	12/01/93	6.107%	—
1979A.....	65,000	—	09/01/79	12/01/93	6.546%	—
1980A.....	40,000	—	06/01/80	06/01/92	6.938%	—
1982A.....	185,000	—	10/01/82	12/01/93	11.282%	—
1984A.....	50,000	—	12/01/84	12/01/95	9.521%	—
1987A.....	24,200	71,700	07/01/87	12/01/97	7.003%	—
1988A.....	40,000	—	09/01/88	06/01/98	7.258%	—
1989A.....	40,000	—	11/01/89	12/01/97	6.857%	—
II-1991A.....	40,000	—	04/01/91	12/01/05	6.435%	—
II-1992A.....	39,940	22,290	02/01/92	12/01/06	5.856%	—
II-1993A.....	40,000	—	02/01/93	12/01/07	5.186%	—
II-1993B.....	40,395	137,940	11/01/93	06/01/08	4.515%	—
II-1994A.....	40,000	—	11/01/94	12/01/09	6.033%	—
II-1996A.....	40,000	—	02/01/96	12/01/10	4.672%	—
II-1996B.....	40,000	—	10/01/96	06/01/11	5.200%	—
II-1997A.....	40,000	—	12/01/97	12/01/12	4.807%	3,000
II-1998A.....	39,550	21,250	07/01/98	06/01/13	4.634%	3,000
II-2000A.....	30,000	—	06/01/00	06/01/15	5.286%	5,690
II-2001A.....	—	56,970	04/01/01	12/01/10	4.112%	23,665
II-2001B.....	30,000	—	08/01/01	06/01/16	4.540%	10,225
II-2002A.....	30,000	—	08/01/02	06/01/17	4.194%	10,420
II-2002B.....	—	38,065	08/01/02	12/01/10	3.112%	16,430
II-2003A.....	—	8,215	02/01/03	06/01/11	3.446%	8,215
II-2003B.....	30,000	—	06/01/03	06/01/18	3.536%	24,625
II-2004A.....	—	30,035	10/05/04	08/01/12	3.536%	29,335
II-2004B.....	25,000	—	12/29/04	06/01/19	3.536%	20,430
II-2005A.....	30,000	—	08/31/05	08/01/19	4.366%	28,230
II-2006A.....	30,000	—	08/10/06	06/01/16	4.094%	29,000
II-2006B.....	—	26,775	12/14/06	12/01/16	4.752%	26,775
	1,319,085	413,240				239,040
Bond Anticipation Notes.....	3,000	—				—
Total.....	\$1,322,085	\$413,240				\$239,040

See Independent Auditor's Report.

(Continued)

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2007
(Dollars in 000s)

(Continued, page 4)

Parks and Recreation Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2007
1972A	\$ 6,000	—	06/01/72	06/01/94	5.042%	\$ —
1978A	38,000	—	06/01/78	12/01/95	5.856%	—
1982A	20,000	—	12/01/82	12/01/92	10.061%	—
1986A	16,150	—	05/01/86	12/01/97	6.783%	—
1989A	36,000	—	06/01/89	12/01/97	6.658%	—
II-1992A	8,100	8,400	10/01/92	12/01/07	5.325%	—
II-1993A	20,000	—	03/01/93	12/01/07	4.739%	—
II-1994A	20,000	—	09/01/94	06/01/09	5.414%	—
II-1995A	20,000	11,100	10/01/95	06/01/10	5.097%	—
II-1997A	10,150	15,850	12/01/97	12/01/12	4.649%	700
II-2000A	20,000	—	02/01/00	12/01/14	5.472%	4,200
II-2001A	25,000	—	02/01/01	12/01/15	4.576%	8,555
II-2001B	—	20,935	04/01/01	12/01/09	4.019%	9,510
II-2002A	25,000	—	05/01/02	06/01/17	4.459%	8,080
II-2002B	—	9,675	08/01/02	12/01/07	2.524%	1,910
II-2003A	—	6,425	02/01/03	06/01/12	3.575%	6,105
II-2004A	25,000	—	03/11/04	12/01/18	4.107%	20,295
II-2004B	—	11,740	10/05/04	08/01/14	4.107%	11,315
II-2005A	23,100	—	03/09/05	02/01/20	4.107%	20,590
II-2006A	—	15,410	12/14/06	12/01/16	4.318%	15,410
	312,500	99,535				106,670
Bond Anticipation Notes	500	—				—
Total	\$313,000	\$99,535				\$106,670

Cultural and Sports Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2007
1992A	\$ 5,000	\$ —	04/09/92	04/08/93	3.500%	\$ —
1993A	10,000	—	06/01/93	10/01/07	4.477%	910
1993A	35,000	—	06/01/93	10/01/07	4.477%	3,230
1996A	10,000	—	04/01/96	10/01/05	4.370%	—
1997A	40,000	—	01/15/97	10/01/06	4.965%	—
1997A	37,000	—	01/15/97	10/01/11	4.745%	15,460
1999A	75,000	—	03/15/99	10/01/08	5.000%	18,140
1999A	39,000	—	03/15/99	10/01/13	4.400%	11,270
2001A	29,000	—	02/01/01	04/01/16	4.817%	9,885
2001A	23,690	—	02/01/01	04/01/16	4.423%	8,055
2003A	20,000	—	03/14/03	04/01/18	3.528%	15,565
2004A	20,000	—	10/21/04	10/01/14	3.570%	16,475
2005A	30,000	—	08/31/05	04/01/20	4.608%	29,000
2006A	25,000	—	12/14/06	04/01/20	4.446%	25,000
2006B	—	28,295	12/14/06	10/01/15	4.827%	28,295
Total	\$398,690	\$28,295				\$181,285

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Changes in Bonds Payable Balance
For the Year Ended June 30, 2007
(Dollars in 000s)

	Higher Education Facilities Bonds	Mental Health Facilities Bonds	Parks and Recreation Facilities Bonds	Cultural and Sports Facilities Bonds	Total
Outstanding Balance, July 1, 2006 <i>(as restated)</i>	\$806,741	\$251,809	\$120,948	\$189,574	\$1,369,072
Additions:					
New Issuances:					
Bond Principal.....	—	30,000	—	25,000	55,000
Bond Premium	—	173	—	958	1,131
Advance Refunding Issuances:					
Bond Principal.....	—	26,775	15,410	28,295	70,480
Bond Premium	—	1,987	717	2,028	4,732
Accretion of Discount.....	—	—	6	5	11
Amortization of Deferred Refunding Amount	4,421	732	271	58	5,482
Total Additions.....	4,421	59,667	16,404	56,344	136,836
Deductions:					
Bond Principal Repayments	163,340	37,940	13,745	29,575	244,600
Refunded Bonds:					
Bond Principal.....	—	26,630	14,760	28,060	69,450
Bond Premium	—	593	304	800	1,697
Deferred Refunding Amount.....	—	1,483	1,018	1,323	3,824
Amortization of Premium	6,403	1,568	317	794	9,082
Total Deductions.....	169,743	68,214	30,144	60,552	328,653
Outstanding Balance, June 30, 2007	\$641,419	\$243,262	\$107,208	\$185,366	\$1,177,255
Amount Due in One Year	\$174,107	\$ 36,659	\$ 14,820	\$ 28,161	\$ 253,747
Amount Due in More Than One Year	467,312	206,603	92,388	157,205	923,508
Outstanding Balance, June 30, 2007	\$641,419	\$243,262	\$107,208	\$185,366	\$1,177,255

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Future Debt Funding Requirements
As of June 30, 2007
(Dollars in 000s)

Year Ending June 30,	Higher Education Facilities			Mental Health Facilities			Parks & Recreation Facilities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$173,885	\$29,243	\$203,128	\$ 36,595	\$10,130	\$ 46,725	\$ 14,825	\$ 4,104	\$ 18,929
2009	114,615	21,352	135,967	27,635	8,679	36,314	10,930	3,614	14,544
2010	109,370	15,046	124,416	30,155	7,441	37,596	12,065	3,209	15,274
2011	98,210	9,642	107,852	26,630	6,218	32,848	9,030	2,828	11,858
2012	77,990	5,127	83,117	22,410	5,030	27,440	9,685	2,473	12,158
2013-2017	61,530	1,841	63,371	80,770	12,565	93,335	40,170	6,958	47,128
2018-2022	—	—	—	14,845	1,004	15,849	9,965	834	10,799
	635,600	82,251	717,851	239,040	51,067	290,107	106,670	24,020	130,690
Premium/ Discount, Net	19,423	—	19,423	7,411	—	7,411	2,387	—	2,387
Deferred Refunding Amount	(13,604)	—	(13,604)	(3,189)	—	(3,189)	(1,849)	—	(1,849)
Total	\$641,419	\$82,251	\$723,670	\$243,262	\$51,067	\$294,329	\$107,208	\$24,020	\$131,228

Year Ending June 30,	Cultural and Sports Facilities			Total-Chapter 154 Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 28,095	\$ 7,800	\$ 35,895	\$ 253,400	\$ 51,277	\$ 304,677
2009	24,980	6,650	31,630	178,160	40,295	218,455
2010	16,365	5,747	22,112	167,955	31,443	199,398
2011	17,110	4,996	22,106	150,980	23,684	174,664
2012	17,600	4,227	21,827	127,685	16,857	144,542
2013-2017	60,205	10,879	71,084	242,675	32,243	274,918
2018-2022	16,930	1,631	18,561	41,740	3,469	45,209
	181,285	41,930	223,215	1,162,595	199,268	1,361,863
Premium/ Discount, Net	5,346	—	5,346	34,567	—	34,567
Deferred Refunding Amount	(1,265)	—	(1,265)	(19,907)	—	(19,907)
Total	\$185,366	\$41,930	\$227,296	\$1,177,255	\$199,268	\$1,376,523

See Independent Auditor's Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Advance Refundings and Prior Years' Defeasances
As of and For the Year Ended June 30, 2007
(Dollars in 000s)

Advance Refundings

During fiscal year 2007, the Treasurer defeased a number of lease rental bond issues *in substance* when the net proceeds of refunding bonds (after payment of underwriting fees and bond issue costs) were deposited with escrow agents to provide for all future principal and interest payments on the old bonds. A resulting economic gain or loss from an advance refunding represents the difference between the present values of the debt service payments on the old and new debt. Detail on each advance refunding bond transaction is discussed below.

A. Mental Health Facilities Series II-2006B

On December 14, 2006, the Treasurer issued \$26,775 in Mental Health Facilities lease revenue bonds with an average coupon rate of 4.752 percent to advance refund \$26,630 in outstanding principal as follows.

Issue	Refunded Principal	Interest Rates of Refunded Bonds
Series II-2000A....	\$ 9,670	5.200-5.375%
Series II-2001B....	7,700	5.500%
Series II-2002A....	9,260	5.250%
Total	\$26,630	

The net proceeds of \$28,482 (after payment of \$272 in underwriting fees and other issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the various refunded bonds. As a result, the refunded bonds are considered to be defeased.

The Treasurer advance refunded the above Mental Health Facilities Series II bonds to reduce the State's total debt service payments over 11 years by \$1,793 and to obtain an economic gain of \$1,115.

B. Parks and Recreation Facilities Series II-2006A

On December 14, 2006, the Treasurer issued \$15,410 in Parks and Recreation Facilities lease revenue bonds with an average coupon rate of 4.318 percent to advance refund \$14,760 in outstanding principal as follows.

Issue	Refunded Principal	Interest Rates of Refunded Bonds
Series II-2000A....	\$ 6,395	5.500%
Series II-2002A....	8,365	5.500%
Total	\$14,760	

The net proceeds of \$15,968 (after payment of \$161 in underwriting fees and other issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the various refunded bonds. As a result, the refunded bonds are considered to be defeased.

The Treasurer advance refunded the above Parks and Recreation Facilities Series II bonds to reduce the State's total debt service payments over 11 years by \$924 and to obtain an economic gain of \$656.

C. Cultural and Sports Facilities Series 2006B

On December 14, 2006, the Treasurer issued \$28,295 in Cultural and Sports Facilities lease revenue bonds with an average coupon rate of 4.827 percent to advance refund \$28,060 in outstanding principal as follows.

Issue	Refunded Principal	Interest Rates of Refunded Bonds
Series 1999 Sports	\$10,030	5.250%
Series 2001 Arts & Sports....	10,025	5.500%
Series 2001 Sports	8,005	4.750-5.500%
Total	\$28,060	

See Independent Auditor's Report.

(Continued)

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Advance Refundings and Prior Years' Defeasances
As of and For the Year Ended June 30, 2007
(Dollars in 000s)

(Continued, page 2)

The net proceeds of \$30,036 (after payment of \$290 in underwriting fees and other issuance costs) were deposited with an escrow agent to provide for all future debt service payments on the various refunded bonds. As a result, the refunded bonds are considered to be defeased.

The Treasurer advance refunded the above Cultural and Sports Facilities bonds to reduce the State's total debt service payments over 10 years by \$1,620 and to obtain an economic gain of \$1,080.

Prior Years' Defeasances

In prior years, the Treasurer defeased certain other Chapter 154 Lease Revenue Obligations by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the financial statements of the Chapter 154 Lease Revenue Obligations. As of June 30, 2007, the following table details prior years' refunded bonds, in addition to the current year's advance refunding issues discussed above, which are considered to be defeased and no longer outstanding.

<u>Refunded Issue</u>	<u>Principal Yet to be Paid, as of June 30, 2007</u>	<u>Scheduled Redemption Date</u>
Higher Education:		
Series II-1997B.....	\$ 56,400	November 1, 2007
Series II-1998A.....	56,400	December 1, 2007
Series II-1998B.....	56,400	June 1, 2008
Series II-1998C.....	56,400	June 1, 2008
Series II-1999A.....	34,600	November 1, 2008
	<u>260,200</u>	
Mental Health:		
Series II-1997A.....	16,100	December 1, 2007
Series II-1998A.....	16,100	June 1, 2008
Series II-2000A.....	2,110	June 1, 2010
Series II-2001B.....	2,230	December 1, 2016
Series II-2002A.....	2,185	June 1, 2017
	<u>38,725</u>	
Parks & Recreation:		
Series II-1997A.....	4,200	December 1, 2007
Series II-1998A.....	8,500	December 1, 2009
Series II-2001A.....	1,930	December 1, 2010
Series II-2002A.....	1,840	June 1, 2017
	<u>16,470</u>	
Total	<u>\$315,395</u>	

See Independent Auditor's Report.



INSIGHT ■ INNOVATION ■ EXPERIENCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Treasurer of State of Ohio
Columbus, Ohio

We have audited the financial statements of the Debt Service Funds as held in the name of the Treasurer of the State of Ohio (the Funds) of the Higher Education Capital Facilities, Mental Health Capital Facilities, Parks and Recreation Capital Facilities, and Cultural and Sports Capital Facilities Lease Revenue Bonds Governed by the Ohio Revised Code Chapter 154 as of and for the year ended June 30, 2007, and have issued our report thereon dated October 11, 2007. The financial statements present only the State Lease Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Treasurer of the State of Ohio, which is part of the reporting entity of the State of Ohio. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Treasurer of State and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Schmidt Downs, CPA". The signature is written in a cursive style.

Columbus, Ohio
October 11, 2007



Mary Taylor, CPA
Auditor of State

TREASURER OF STATE LEASE REVENUE BONDS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 15, 2007**