

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

Financial Statements for the Year Ended June 30, 2005 with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Members of the Ohio Public Facilities Commission
Treasurer of State Lease Revenue Bonds
30 East Broad St., 9th Floor
Columbus, OH 43226

We have reviewed the *Independent Auditor's Report* of the Treasurer of State Lease Revenue Bonds, Franklin County, prepared by Schneider Downs & Co., Inc., for the audit period July 1, 2004 through June 30, 2005. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 17, 2005

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INDEPENDENT AUDITORS' REPORT

Treasurer, State of Ohio
Columbus, Ohio

We have audited the accompanying basic financial statements of the Debt Service Funds (referred to hereafter as the Funds) of the Ohio Education Capital Facilities, Mental Health Capital Facilities, and Parks and Recreation Capital Facilities Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 (the Obligations)(a component unit of the State of Ohio), as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements 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 State of America and the standard 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2005 on our consideration of the Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Governmental Accounting Standards Board. 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 basic financial statements taken as a whole.

Columbus, Ohio
September 28, 2005

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STATE OF OHIO
Chapter 154 Bonds
Management's Discussion & Analysis
For the Year Ended June 30, 2005
(UNAUDITED)

As management of the Treasurer of the State of Ohio, we offer readers of the financial statements of the Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 ("Chapter 154 Bonds") this narrative overview and analysis of the Chapter 154 Bond's financial activities for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The liabilities of the Chapter 154 Bonds exceeded its assets at the close of the most recent fiscal year by \$1,606,975 (net assets deficit). All net assets are restricted for debt service.
- The Chapter 154 Bond's net assets decreased by \$1,532,674.
- As of the close of the most recent fiscal year, the Chapter 154 Bond's governmental funds reported combined ending fund balances of \$3.37 million, a decrease of \$476,000, or 12.4%, in comparison with the prior year. The entire ending fund balance is reserved.
- Total par amount of debt decreased by \$170 million (11.3%). Although new and refunding bonds were issued totaling \$264 million, principal retirements and bond refundings totaled \$434 million.
- New Mental Health Bonds were issued with a par value totaling \$25 million, and new Parks & Recreation Capital Facilities Bonds with a par value totaling \$23 million were issued.
- Advance refunding bonds with a par value totaling \$216 million were issued to refund various outstanding Higher Education, Mental Health, and Parks & Recreation Capital Facilities Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Chapter 154 Bonds. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

1. Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Chapter 154 Bond's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Chapter 154 Bond's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Chapter 154 Bonds is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued administrative costs).

The government-wide financial statements can be found on pages 8 and 9 of this report.

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OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

2. Fund Financial Statements

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. The Chapter 154 Bonds, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Chapter 154 Bonds are considered to be governmental funds. The Chapter 154 Bonds do not include proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

For each of the three categories of capital facility bonds issued, Higher Education, Mental Health, and Parks & Recreation, the Treasurer maintains a bond service fund and an administrative service fund, for a total of six governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for each of the three categories of bonds issued.

The governmental fund financial statements can be found on pages 10 and 11 of this report.

3. Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 to 23 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Chapter 154 Bonds, liabilities exceeded assets by \$1,606,975 (deficit) at the close of the most recent fiscal year. All net assets are restricted for debt service.

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Chapter 154 Bonds
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(UNAUDITED)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A comparative analysis of net assets as of June 30, 2005 versus June 30, 2004 follows:

Net Asset Comparative Analysis

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Current Assets	\$ 11,869,828	\$ 9,832,710	20.72%
Other Assets	<u>1,349,761,676</u>	<u>1,517,332,262</u>	-11.04%
Total Assets	1,361,631,504	1,527,164,972	
Current Liabilities	214,845,965	217,390,690	-1.17%
Long-Term Liabilities	<u>1,148,392,514</u>	<u>1,309,848,583</u>	-12.33%
Total Liabilities	1,363,238,479	1,527,239,273	
Net Assets (Deficit)	<u>\$ (1,606,975)</u>	<u>\$ (74,301)</u>	2062.79%

Net assets decreased by \$1.5 million during fiscal year 2005. The majority of this decrease was due to the amount of lease payments received from State agencies during the fiscal year being reduced by 1) research investment loan payments received during the prior fiscal year; 2) net premium received on the sale of bonds; and 3) accrued interest received on the sale of bonds.

The \$161 million reduction in long-term liabilities and the \$2.5 million reduction in current liabilities are mainly the result of a reduction in outstanding bond obligations due to principal repayments and bond refundings during 2005. The corresponding asset accounts, leases receivable from state agencies and interest receivable, decreased by a like amount.

Revenue and Expense Comparative Analysis

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Charges for Services	\$ 62,695,943	\$ 74,655,907	-16.02%
Investment Income	\$ 59,897	\$ 50,347	18.97%
Escrow Restructuring Proceeds	-	<u>1,738,952</u>	-100.00%
Total Program Revenues	62,755,840	76,445,206	
Interest on Debt	63,468,083	76,838,153	-17.40%
Other	<u>820,431</u>	<u>816,400</u>	0.49%
Total Expenses	64,288,514	77,654,553	
Net Expense	<u>\$ (1,532,674)</u>	<u>\$ (1,209,347)</u>	26.74%

Both interest on debt and charges for services decreased because of a decrease in outstanding bond obligations during 2005.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued))

For fiscal year 2005, 99.9% of total government wide revenues were comprised of interest on leases from State agencies, and, accordingly, 98.7% of total government-wide expenses were for the payment of interest on outstanding debt.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Chapter 154 Bonds uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Chapter 154 Bond's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Chapter 154 Bond's financing requirements.

As of the end of the current fiscal year, the Chapter 154 Bond's governmental funds reported combined ending fund balances of \$3.37 million, a decrease of \$476,000 in comparison with the prior year. Approximately 16.8% of the total fund balance, \$565,757, is comprised of a reserve for research investment loans receivable.

The following charts compare governmental fund revenues and expenditures for the current fiscal year to the prior fiscal year:

**Governmental Fund Revenue
Comparative Analysis**

<u>Revenue Source</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Investment Income	\$ 59,897	\$ 50,347	18.97%
Lease Payments from State Agencies	277,190,213	307,761,278	-9.93%
Bond Premiums	21,676,129	1,039,153	1985.94%
Proceeds of Refunding Bonds	215,750,000	-	-
Escrow Restructuring Proceeds	-	1,738,950	-100.00%
	<u>\$ 514,676,239</u>	<u>\$ 310,589,728</u>	65.71%

As the chart above indicates, for 2005, 53.9% of governmental fund revenues were comprised of lease payments from state agencies. 41.9% of governmental fund revenues was from the proceeds of refunding bonds. Total lease payments from State Agencies decreased for fiscal year 2005 due to the corresponding decrease in outstanding debt and debt service requirements for the year.

Revenue from bond premiums increased by \$20.6 million because of a significant increase in bond issuance activity during 2005. A total of five bond issuances were completed in 2005 versus one issuance in 2004. Three refunding bonds were issued in 2005, versus none in the prior year, which explains the increase in proceeds of refunding bonds.

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FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (Continued)

Governmental Fund Expenditures
Comparative Analysis

<u>Expenditure</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
Administrative Costs	\$ 2,635,123	\$ 596,819	341.53%
Debt Service Payments	278,981,883	310,728,175	-10.22%
Payments to Refunded Bond Escrow Agents	<u>233,534,927</u>	<u>-</u>	-
	<u>\$ 515,151,933</u>	<u>\$ 311,324,994</u>	65.47%

As the chart above indicates, for 2005, 54.2% of the Chapter 154 Bond expenditures were for debt service payments. 45.3% of expenditures were for payments to refunded bond escrow agents. Debt service payments decreased for fiscal year 2005 due to the decrease in outstanding bonds payable from principal repayments and refunded bond principal. Administrative costs increased mainly because of a significant increase in bond issuance activity in 2005 and a corresponding increase in bond issuance costs. A total of five bond issuances were completed in 2005 versus one issuance in 2004. Three refunding bonds were issued in 2005, versus none in the prior year, which explains the increase in payments to refunded bond escrow agents.

BUDGETARY HIGHLIGHTS

With regard to the Chapter 154 Bonds, the Treasurer is not required to follow a legal budget, and, thus, budgetary highlights are not presented.

DEBT

At June 30, 2005, there was a total of \$1,337,845,000 (par amount) of outstanding bonds payable. The Treasurer paid \$215,495,000 of principal on bonds outstanding during the fiscal year, and refunded \$218,055,000 of principal, while new bonds were issued totaling \$263,850,000. The total par amount of debt decreased by \$169,700,000 during the fiscal year.

The Treasurer may issue special obligation (lease-rental) bonds only as authorized by the General Assembly of the State of Ohio, which has authorized lease-rental bonds for capital facilities projects in aggregate amounts of up to \$4,817,590,000 for higher education, \$1,335,000,000 for mental health, and \$335,000,000 for parks and recreation. There is currently no General Assembly authorization for additional lease-rental bonds for higher education projects; however, bonds may be issued to refund outstanding bonds.

Detailed information regarding long-term debt is included in the Note 4 to the basic financial statements.

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Chapter 154 Bonds
Management's Discussion & Analysis
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ECONOMIC FACTORS

- There remains \$72,915,000 in authorized by the General Assembly, but not yet issued, Mental Health Capital Facilities Bonds.
- There remains \$22,000,000 in authorized by the General Assembly, but not yet issued, Parks & Recreation Capital Facilities Bonds.
- As of June 30, 2005, the obligations issued by the Treasurer were rated Aa2 by Moody's and AA by both Standard & Poor's and Fitch.

CONTACTING THE TREASURER'S FINANCIAL MANAGEMENT

This financial report is designed to provide an overview of the Chapter 154 Bond's finances. If you have questions about this report or need additional financial information, contact Paul Steiner, Director of the Sinking Fund Commission, 30 East Broad Street, 9th Floor, Columbus, Ohio 43226.

STATE OF OHIO
Chapter 154 Bonds
Statement of Net Assets
As of June 30, 2005

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash	\$ 145,034
Investments	2,695,986
Interest Receivable	8,958,569
Collateral on Lent Securities	70,240
Loans Receivable from State Universities	565,758
Leases Receivable from State Agencies	1,344,594,930
Other Assets-Unamortized Bond Issue Costs	<u>4,600,988</u>
TOTAL ASSETS	<u>1,361,631,504</u>
LIABILITIES:	
Accounts Payable	35,432
Accrued Interest on Bonds	9,524,329
Obligations Under Securities Lending	70,240
Special Obligation Bonds Payable, net of deferred amounts, premiums, and discount:	
Due in One Year	205,215,964
Due in More Than One Year	<u>1,148,392,514</u>
TOTAL LIABILITIES	<u>1,363,238,479</u>
NET ASSETS (DEFICIT):	<u>(1,606,975)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (1,606,975)</u>

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

STATE OF OHIO
Chapter 154 Bonds
Statement of Activities
For the Year Ended June 30, 2005

	TOTAL	HIGHER EDUCATION CAPITAL FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES
EXPENSES:				
Administrative	\$ 225,342	\$ 84,872	\$ 79,873	\$ 60,597
Amortization of Bond Issue Costs	595,089	344,542	168,022	82,525
Interest on Debt	63,468,082	47,627,492	10,864,096	4,976,494
TOTAL EXPENSES	64,288,513	48,056,906	11,111,991	5,119,616
PROGRAM REVENUES:				
Charges for Services (1)	62,695,943	47,503,209	10,822,382	4,370,351
Restricted Investment Income	59,897	29,285	17,662	12,950
TOTAL PROGRAM REVENUES	62,755,840	47,532,494	10,840,044	4,383,301
NET EXPENSE AND CHANGES IN NET ASSETS	(1,532,674)	(524,412)	(271,947)	(736,315)
NET ASSETS, JULY 1, as restated	(74,301)			
NET ASSETS, JUNE 30	\$ (1,606,975)			

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

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

STATE OF OHIO
Chapter 154 Bonds
Balance Sheet
For the Year Ended June 30, 2005

	HIGHER EDUCATION CAPITAL FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	TOTAL DEBT SERVICE
ASSETS:				
Cash	-	-	\$ 145,034	\$ 145,034
Investments	\$ 1,737,531	\$ 621,412	337,043	2,695,986
Collateral on Lent Securities	45,269	16,190	8,781	70,240
Loans Receivable from State Universities	565,758	-	-	565,758
TOTAL ASSETS	2,348,558	637,602	490,858	3,477,018
LIABILITIES:				
Accrued Interest on Bonds	-	-	-	-
Obligations Under Securities Lending	45,269	16,190	8,781	70,240
Accrued Liabilities	12,301	14,009	9,122	35,432
TOTAL LIABILITIES	57,570	30,199	17,903	105,672
FUND BALANCES:				
Reserved for Debt Service	1,725,231	607,404	472,955	2,805,590
Reserved for Noncurrent Portion of Loans Receivable	565,757	-	-	565,757
TOTAL FUND BALANCES	2,290,988	607,404	472,955	3,371,347
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,348,558	\$ 637,603	\$ 490,858	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

The following long-term receivables are not available to pay for current period expenditures, and therefore, are deferred in the debt service fund:

Leases receivable	\$ 1,344,594,929
Interest receivable	8,958,569

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

Accrued Interest on Bonds	(9,524,329)
Special Obligation Bonds Payable	(1,353,608,478)

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the debt service fund.

Unamortized Bond Issue Costs	4,600,988
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Net Assets (deficit) of Governmental Activities	\$ (1,606,975)
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The notes to the financial statements are an integral part of this statement.

STATE OF OHIO
Chapter 154 Bonds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2005

	HIGHER EDUCATION CAPITAL FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	TOTAL DEBT SERVICE
REVENUES:				
Lease Payments from State Agencies	\$ 215,895,522	\$ 44,761,638	\$ 16,533,053	\$ 277,190,213
Investment Income	29,285	17,662	12,950	59,897
TOTAL REVENUES	215,924,807	44,779,300	16,546,003	277,250,110
EXPENDITURES:				
Administrative Costs	1,601,965	621,261	411,897	2,635,123
Debt Service:				
Principal	168,665,000	34,125,000	12,705,000	215,495,000
Interest	47,725,415	11,098,945	4,662,523	63,486,883
TOTAL EXPENDITURES	217,992,380	45,845,206	17,779,420	281,617,006
OTHER FINANCING SOURCES (USES):				
Proceeds From Refunding Bonds	173,975,000	30,035,000	11,740,000	215,750,000
Bond Premiums	17,043,429	3,486,448	1,146,252	21,676,129
Payments to Escrow Agents	(189,488,077)	(32,454,581)	(11,592,269)	(233,534,927)
TOTAL OTHER FINANCING SOURCES (USES)	1,530,352	1,066,867	1,293,983	3,891,202
EXCESS (DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES(USES) OVER(UNDER) EXPENDITURES				
	(537,221)	961	60,566	(475,694)
FUND BALANCE, JULY 1, as restated	2,828,209	606,443	412,389	
FUND BALANCE, JUNE 30	\$ 2,290,988	\$ 607,404	\$ 472,955	

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

The principal portion of lease payments from state agencies provide current financial resources to the debt service fund, but reduces leases receivable in the Statement of Net Assets.	\$ (214,494,270)
Bond proceeds provide current financial resources to the debt service fund, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal and payments to escrow agents for refunded bonds are expenditures in the debt service fund, but the payments reduce long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded payments.	211,603,798
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the debt service fund: Interest on Debt	18,801
Bond issue costs are deferred and reported on the Statement of Net Assets and amortized over the life of the bonds, and, therefore, are not reported as expenditures in the debt service fund: Deferred Bond Issue Costs Amortization of Bond Issue Costs	2,409,781 (595,089)
Change in Net Assets of Governmental Activities	\$ (1,532,674)

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

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

In 1969, the General Assembly of the State of Ohio (the General Assembly) enacted Chapter 154 of the Ohio Revised Code pursuant to the power granted to the General Assembly by Section 2i of Article VIII of the Ohio Constitution to authorize for certain stated purposes, 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 (the 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 institutions of higher education, (b) mental hygiene and retardation, and (c) parks and recreation (the Obligations). By Section 154.23 of the Revised Code, enacted in 1980, the Commission was also authorized to issue obligations to pay costs of capital facilities for 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 of the Revised Code was repealed. The General Assembly enacted Am. Sub. H.B. 640, effective September 14, 2000, which reassigned to the Treasurer of the State of Ohio (the Treasurer) the issuing authority and functions of the Commission with respect to the Obligations. The Treasurer succeeded the Commission as issuer with all responsibilities and obligations under the bond proceedings relating to the previously issued Obligations. The Treasurer can issue Obligations only in such amounts as are previously authorized by the General Assembly and the proceeds are 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 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. All such leases are "net" leases. Accordingly, only the Lease Revenue Bonds governed by Ohio Revised Code Chapter 154 are included in these financial statements.

The Treasurer of the State of Ohio is a part of the reporting entity of the State of Ohio. The financial statements presented are also included in the comprehensive annual financial report of the State of Ohio. The Treasurer is a nontaxable entity; as such, no taxes have been accrued.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 (Chapter 154 Bonds) have been prepared in conformity with U.S. 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 principles. The most significant of the Treasurer's accounting policies are described below.

Basis of Presentation

The Chapter 154 Bond's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Chapter 154 Bonds as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

The statement of net assets presents the financial condition of the governmental activities of the Chapter 154 Bonds at year-end. The statement of activities presents a comparison between direct expenses and program revenues for the Chapter 154 Bonds.

Fund Financial Statements

During the year, the Treasurer segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Chapter 154 Bonds at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

Fund Accounting

The Treasurer 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.

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the major governmental funds of the Chapter 154 Bonds.

Bond Service Funds

These debt service funds are used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs and special assessment long-term debt principal, interest and related costs.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Chapter 154 Bonds are included on the Statement of Net Assets.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

All governmental 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. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues

On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The Treasurer considers revenues as available if they are collected within 60 days after fiscal year end.

Expenses/Expenditures

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 governmental funds. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the Bond Service Funds for payments to be made in the subsequent fiscal year. The financial statement presentation is in accordance with the debt source and accordingly shows multiple debt service funds.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Accrued liabilities represent accrued fees due to trustees as of June 30, 2005.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves

The Treasurer reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Treasurer or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Budgeting Process

With regard to the Chapter 154 Bonds, the Treasurer is not required to follow a legal budget or to present a budgetary statement.

Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS

Investments by the Treasurer relating to the Obligations are carried at amortized cost, which approximates market value. Such investments are restricted to obligations of the United States or of any agency or instrumentality thereof (and funds consisting exclusively of, and repurchase agreements secured by, those obligations), obligations guaranteed as to principal and interest by the United States, 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 Fund from which the investment is made.

During the year, the investments by the Treasurer relating to the Obligations were limited by management decision to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their 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

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 3 – CASH AND INVESTMENTS (Continued)

Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

A summary of investments held at fiscal year end is as follows:

	Book Value	Market Value
STAR Ohio (Higher Education)	\$ 1,737,531	\$ 1,737,531
STAR Ohio (Mental Health)	621,412	621,412
STAR Ohio (Parks & Recreation)	337,043	337,043
	<hr/>	<hr/>
TOTAL	\$ 2,695,986	\$ 2,695,986
	<hr/>	<hr/>

Credit Risk – .Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk – Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. As noted above, all of the Treasurer's investments related to the obligations were in STAR Ohio.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a failure of a depository institution or counterparty to a transaction, the Treasurer will be unable to recover the value of deposits, investments, or collateral securities in the possession of an outside party. At June 30, 2005, all investments in STAR Ohio were in the name of the Treasurer.

As of June 30, 2005, the carrying amounts of the Treasurer's deposits relating to the Obligations totaled \$145,033, the same as the banks' balances. Of these balances, \$100,000 was insured by the Federal Deposit Insurance Corporation. The remainder was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Treasurer's name.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES

The General Assembly has authorized issuance of the following amounts of special obligation bonds and bond anticipation notes for capital facilities:

	Higher Education Lease Rental	Mental Health	Parks and Recreation
108th General Assembly	\$265,000,000	\$152,000,000	\$20,000,000
109th General Assembly	165,000,000	-0-	-0-
110th General Assembly	64,400,000	40,000,000	-0-
111th General Assembly	254,118,000	185,715,000	-0-
112th General Assembly	217,220,000	211,035,000	24,250,000
113th General Assembly	-0-	694,500	-0-
114th General Assembly	608,578,087	71,356,980	35,900,000
115th General Assembly	303,788,913	32,550,520	-0-
116th General Assembly	413,260,000	84,893,000	2,500,000
117th General Assembly	402,000,000	48,300,000	38,000,000
118th General Assembly	568,795,000	88,655,000	7,000,000
119th General Assembly	428,940,000	79,900,000	38,450,000
120th General Assembly	679,200,000	77,500,000	30,000,000
121st General Assembly	559,000,000	68,400,000	22,700,000
122nd General Assembly	555,600,000	64,000,000	31,200,000
123rd General Assembly	(667,310,000)(a)	76,000,000	41,000,000
124th General Assembly	-0-	34,000,000	22,000,000
125th General Assembly	-0-	20,000,000	22,000,000
TOTAL	<u>\$4,817,590,000</u>	<u>\$1,335,000,000</u>	<u>\$335,000,000</u>

(a) Reflects the transfer of subsequent issuing authority from special obligations (lease-rental) to general obligations for higher education capital facilities.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

Of such authorized amounts, there has been issued:

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2005(d)
Higher Education					
Lease-Rental Bonds:					
Series 1970A	\$40,000,000	8-1-70	6-1-92	6.167%	\$ -0-
Series 1971A	50,000,000	5-1-71	5-1-94	5.095	-0-
Series 1972A	60,000,000	3-1-72	12-1-94	4.973	-0-
Series 1972B	75,000,000	8-1-72	11-1-93	5.274	-0-
Series 1973A	40,000,000	6-1-73	12-1-93	5.079	-0-
Series 1974A	45,000,000	4-1-74	11-1-96	5.560	-0-
Series 1974B	40,000,000	12-1-74	12-1-96	6.297	-0-
Series 1975A	30,000,000	6-1-75	6-1-90	6.527	-0-
Series 1976A	100,000,000	3-1-76	5-1-93	6.898	-0-
Series 1976B	70,000,000	10-1-76	11-1-96	5.882	-0-
Series 1977A	50,000,000	9-1-77	12-1-95	5.151	-0-
Series 1978A	60,000,000	3-1-78	12-1-95	5.305	-0-
Series 1978B	100,000,000	8-1-78	5-1-94	6.135	-0-
Series 1979A	65,000,000	6-1-79	6-1-94	5.922	-0-
Series 1980A	85,000,000	8-1-80	5-1-91	9.089	-0-
Series 1981A	45,000,000	3-1-81	6-1-92	10.017	-0-
Series 1982A	75,000,000	7-1-82	6-1-92	13.112	-0-
Series 1983A	90,000,000	4-1-83	6-1-93	9.001	-0-
Series 1984A	90,000,000	1-1-84	12-1-94	8.730	-0-
Series 1984B	115,000,000	9-1-84	11-1-95	9.714	-0-
Series 1985A	110,000,000	6-1-85	6-1-96	8.219	-0-
Series 1986A	110,000,000	2-1-86	11-1-96	8.151	-0-
Series 1986B	120,000,000	8-1-86	5-1-97	7.113	-0-
Series 1987A	120,000,000	4-1-87	5-1-97	6.427	-0-
Series 1987B	130,000,000	7-1-87	6-1-97	7.149	-0-
Series 1988A	120,000,000	1-1-88	11-1-97	6.986	-0-
Series 1988B	115,000,000	9-1-88	6-1-97	7.143	-0-
Series 1989A	115,000,000	4-1-89	5-1-97	7.410	-0-
Series 1989B	115,000,000	12-1-89	12-1-97	6.705	-0-
Series II-1990A	115,000,000	8-1-90	5-1-98	6.864	-0-
Series II-1991A	115,000,000	4-1-91	5-1-98	6.449	-0-
Series II-1991B	115,000,000	10-1-91	12-1-06	6.057	-0-
Series II-1992A	251,855,000	2-1-92	12-1-07	5.649	-0-
Series II-1992B	115,000,000	7-1-92	11-1-07	5.559	-0-
Series II-1992C	136,110,000	10-1-92	12-1-07	5.431	-0-
Series II-1993A	205,800,000	6-1-93	6-1-08	4.867	-0-
Series II-1993B	120,000,000	12-1-93	12-1-08	4.854	-0-
Series II-1994A	253,000,000	3-1-94	12-1-08	4.484	-0-
Series II-1994B	120,000,000	11-1-94	11-1-09	5.982	-0-
Series II-1995A	166,400,000	4-1-95	5-1-10	5.396	-0-

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2005(d)
Higher Education (continued)					
Series II-1995B	140,000,000	10-1-95	11-1-10	5.121	9,100,000
Series II-1996A	150,000,000	2-1-96	11-1-10	5.627	9,700,000
Series II-1996B	150,000,000	10-1-96	11-1-11	5.143	19,000,000
Series II-1997A	282,300,000	4-1-97	5-1-12	5.066	19,000,000
Series II-1997B	236,500,000	10-1-97	11-1-12	4.746	27,800,000
Series II-1998A	254,200,000	3-1-98	12-1-12	4.522	27,800,000
Series II-1998B	150,000,000	7-1-98	6-1-13	4.693	27,800,000
Series II-1998C	150,000,000	12-1-98	6-1-13	4.414	27,800,000
Series II-1999A	100,000,000	8-1-99	11-1-13	4.853	22,900,000
Series II-2001A	394,495,000	4-1-01	12-1-11	4.251	337,510,000
Series II-2002A	253,275,000	8-1-02	12-1-12	3.544	220,805,000
Series II-2003A	36,065,000	2-1-03	6-1-09	3.225	36,065,000
Series II-2004A	<u>173,975,000</u>	10-5-04	8-1-13	3.498	<u>168,975,000</u>
TOTAL	<u>\$4,817,590,000(a)</u>				<u>\$954,255,000(d)</u>

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2005(d)
Mental Health					
Series 1970A	\$ 25,000,000	8-1-70	12-1-92	6.201%	\$ -0-
Series 1971A	50,000,000	8-1-71	6-1-91	6.056	-0-
Series 1975A	50,000,000	4-1-75	12-1-93	6.853	-0-
Series 1976A	45,000,000	4-1-76	12-1-93	6.360	-0-
Series 1976B	50,000,000	12-1-76	12-1-93	6.023	-0-
Series 1977A	50,000,000	12-1-77	12-1-96	5.231	-0-
Series 1978A	40,000,000	12-1-78	12-1-93	6.107	-0-
Series 1979A	65,000,000	9-1-79	12-1-93	6.546	-0-
Series 1980A	40,000,000	6-1-80	6-1-92	6.938	-0-
Series 1982A	185,000,000	10-1-82	12-1-93	11.282	-0-
Series 1984A	50,000,000	12-1-84	12-1-95	9.521	-0-
Series 1987A	95,900,000	7-1-87	12-1-97	7.003	-0-
Series 1988A	40,000,000	9-1-88	6-1-98	7.258	-0-
Series 1989A	40,000,000	11-1-89	12-1-97	6.857	-0-
Series II-1991A	40,000,000	4-1-91	12-1-05	6.435	-0-
Series II-1992A	62,230,000	2-1-92	12-1-06	5.856	-0-
Series II-1993A	40,000,000	2-1-93	12-1-07	5.186	-0-
Series II-1993B	178,335,000	11-1-93	6-1-08	4.515	-0-
Series II-1994A	40,000,000	11-1-94	12-1-09	6.033	-0-
Series II-1996A	40,000,000	2-1-96	12-1-10	4.672	3,000,000
Series II-1996B	40,000,000	10-1-96	6-1-11	5.200	3,000,000
Series II-1997A	40,000,000	12-1-97	12-1-12	4.807	8,500,000
Series II-1998A	60,800,000	7-1-98	6-1-13	4.634	8,500,000
Series II-2000A	30,000,000	6-1-00	6-1-15	5.286	18,680,000
Series II-2001A	56,970,000	4-1-01	12-1-10	4.112	49,310,000
Series II-2001B	30,000,000	8-1-01	6-1-16	4.540	21,380,000
Series II-2002A	30,000,000	8-1-02	6-1-17	4.194	23,170,000
Series II-2002B	38,065,000	8-1-02	12-1-10	3.112	26,005,000
Series II-2003A	8,215,000	2-1-03	6-1-11	3.446	8,215,000
Series II-2003B	30,000,000	6-1-03	6-1-18	3.536	28,230,000
Series II-2004A	30,035,000	10-5-04	8-1-12	3.536	29,335,000
Series II-2004B	<u>25,000,000</u>	12-29-04	6-1-19	3.536	<u>23,160,000</u>
TOTAL	<u>\$1,262,085,000(b)</u>				<u>\$250,485,000(d)</u>

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2004(d)
Parks and Recreation					
Series 1972A	\$ 6,000,000	6-1-72	6-1-94	5.042%	\$ -0-
Series 1978A	38,000,000	6-1-78	12-1-95	5.856	-0-
Series 1982A	20,000,000	12-1-82	12-1-92	10.061	-0-
Series 1986A	16,150,000	5-1-86	12-1-97	6.783	-0-
Series 1989A	36,000,000	6-1-89	12-1-97	6.658	-0-
Series II-1992A	16,500,000	10-1-92	12-1-07	5.325	-0-
Series II-1993A	20,000,000	3-1-93	12-1-07	4.739	-0-
Series II-1994A	20,000,000	9-1-94	6-1-09	5.414	-0-
Series II-1995A	31,100,000	10-1-95	6-1-10	5.097	-0-
Series II-1997A	26,000,000	12-1-97	12-1-12	4.649	2,000,000
Series II-2000A	20,000,000	2-1-00	12-1-14	5.472	6,600,000
Series II-2001A	25,000,000	2-1-01	12-1-15	4.576	17,945,000
Series II-2001B	20,935,000	4-1-01	12-1-09	4.019	17,965,000
Series II-2002A	25,000,000	5-1-02	6-1-17	4.459	19,290,000
Series II-2002B	9,675,000	8-1-02	12-1-07	2.524	5,620,000
Series II-2003A	6,425,000	2-1-03	6-1-12	3.575	6,220,000
Series II-2004A	25,000,000	3-11-04	12-1-18	4.107	23,050,000
Series II-2004B	11,740,000	10-5-04	8-1-14	4.107	11,315,000
Series II-2005A	<u>23,100,000</u>	3-9-05	2-1-20	4.107	<u>23,100,000</u>
TOTAL	<u>\$313,000,000(c)</u>				<u>\$133,105,000(d)</u>

(a) Does not include \$130,000,000 Series 1987B, \$137,405,000 Series II-1992A, \$51,110,000 Series II-1992C and \$84,520,000 Series II-1993A, \$132,150,000 Series II-1994A, \$26,635,000 Series II-1995A, \$132,415,000 Series II-1997A, \$86,500,000 Series II-1997B, \$107,840,000 Series II-1998A, \$394,495,000 Series II-2001A, \$253,275,000 Series II-2002A, \$36,065,000 Series II-2003A, and \$173,975,000 Series II-2004A, all advance refunding Bonds.

(b) Includes \$3,000,000 of bond anticipation notes retired from rental payments. Does not include \$71,700,000 Series 1987A, \$22,290,000 Series II-1992A, 137,940,000 Series II-1993B, \$21,250,000 Series II-1998A, \$56,970,000 Series II-2001A, \$38,065,000 Series II-2002B, \$8,215,000 Series II-2003A, and \$30,035,000 Series II-2004A, all advance refunding Bonds.

(c) Includes 500,000 of bond anticipation notes retired from rental payments. Does not include \$8,400,000 Series II-1992A, \$11,100,000 Series II-1995A, \$15,850,000 Series II-1997A, \$20,935,000 Series II-2001B, \$9,675,000 Series II-2002B, \$6,425,000 Series II 2003A, all advance refunding bonds.

(d) Does not include Bonds advance refunded, does include advance refunding Bonds.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

The Obligations outstanding at June 30, 2005 are in the form of fully registered bonds which mature in various amounts and at various dates and bear interest payable semi-annually at various interest rates. The Bonds maturing after specified dates are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity. The redemption price varies from 102% to 100% dependent upon the terms of the particular series of the Bonds and the redemption date.

In conformity with GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, the Treasurer must disclose certain facts in the State's annual financial report on advance refundings of debt. The following advance refunding bonds were issued during fiscal year 2005:

1. Higher Education, Series II-2004A

On October 5, 2004, the Treasurer issued \$173,975,000 in Higher Education lease revenue bonds with an average interest rate of 3.498% to advance refund \$177,000,000 of various outstanding Series II bonds, as detailed below:

<u>Issue</u>	<u>Refunded Amount</u>	<u>Interest Rate</u>
1997A	\$10,200,000	5.000%
1997B	22,000,000	4.500-4.750%
1998A	46,200,000	5.000%
1998B	24,200,000	4.800%
1998C	46,200,000	4.250-4.500%
1999A	28,200,000	4.500-5.000%

The net proceeds of \$189,488,077 (after payment of \$1,530,353 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 Series II bonds to reduce its total debt service payments over the next nine years by \$9,913,044 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,229,769.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

2. Mental Health, Series II-2004A

On October 5, 2004, the Treasurer issued \$30,035,000 in Mental Health lease revenue bonds with an average interest rate of 3.484% to advance refund \$30,415,000 of various outstanding Series II bonds, as detailed below:

<u>Issue</u>	<u>Refunded Amount</u>	<u>Interest Rate</u>
1997A	\$13,000,000	4.625-4.700%
1998A	13,000,000	4.700-4.800%
2001B	\$ 2,230,000	4.250%
2002A	2,185,000	5.000%

The net proceeds of \$32,454,581 (after payment of \$281,694 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 Series II bonds to reduce its total debt service payments over the next eight years by \$1,808,246 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$946,244.

3. Parks and Recreation, Series II-2004B

On October 5, 2004, the Treasurer issued \$11,740,000 in Parks and Recreation lease revenue bonds with an average interest rate of 3.498% to advance refund \$10,640,000 of various outstanding Series II bonds, as detailed below:

<u>Issue</u>	<u>Refunded Amount</u>	<u>Interest Rate</u>
1997A	\$ 3,400,000	4.875-5.000%
2000A	\$ 5,400,000	5.375-5.500%
2002A	\$1,840,000	4.750%

The net proceeds of \$11,592,268 (after payment of \$120,608 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 Series II bonds to reduce its total debt service payments over the next ten years by \$693,359 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$483,880.

The Treasurer advance refunded certain lease revenue bonds by placing the proceeds of new bonds in an irrevocable trust. The trustee is provided funds which are put into escrow accounts to provide for all future debt service payments on the refunded bonds. Upon such a refunding, the Treasurer is no longer responsible itself for making any future payments of principal and interest on those refunded bonds. Accordingly, the trust accounts' assets and the liabilities for the advance refunded bonds are not included in the Treasurer's financial statements. As of June 30, 2005, the following refunded bonds were yet to come due and were still payable by the trustee from escrowed funds:

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

Refunded Issue	Principal Yet to Be Paid As of June 30, 2005	Date Bonds will be Redeemed
Higher Education, Series II-1995B	\$53,000,000	Nov. 1, 2005
Higher Education, Series II-1996A	\$56,400,000	Nov. 1, 2005
Higher Education, Series II-1996B	\$56,400,000	Nov. 1, 2006
Higher Education, Series II-1997A	\$56,400,000	May 1, 2007
Higher Education, Series II-1997B	\$56,400,000	Nov. 1, 2007
Higher Education, Series II-1998A	\$56,400,000	Dec. 1, 2007
Higher Education, Series II-1998B	\$56,400,000	Jun. 1, 2008
Higher Education, Series II-1998C	\$56,400,000	Jun. 1, 2008
Higher Education, Series II-1999A	\$34,600,000	Nov. 1, 2008
Mental Health, Series II-1996A	\$16,100,000	Dec. 1, 2005
Mental Health, Series II-1996B	\$16,100,000	Jun. 1, 2006
Mental Health, Series II-1997A	\$16,100,000	Dec. 1, 2007
Mental Health, Series II-1998A	\$16,100,000	Jun. 1, 2008
Mental Health, Series II-2000A	\$2,110,000	Jun. 1, 2010
Mental Health, Series II-2001B	\$2,230,000	Dec. 1, 2016
Mental Health, Series II-2002A	\$2,185,000	Jun. 1, 2017
Parks & Recreation Series II-1997A	\$4,200,000	Dec. 1, 2007
Parks & Recreation Series II-2000A	\$8,500,000	Dec. 1, 2009
Parks & Recreation Series II-2001A	\$1,930,000	Dec. 1, 2010
Parks & Recreation Series II-2002A	\$1,840,000	Jun. 1, 2017
Total:	<u>\$569,795,000</u>	

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 4 – BONDS AND NOTES (Continued)

A schedule of changes in the carrying amount of Chapter 154 Bonds during 2005 follows:

	Higher Education	Mental Health	Parks & Recreation	Total
Amount outstanding, June 30, 2004	\$ 1,133,059,033	\$ 263,772,732	\$ 122,724,559	\$ 1,519,556,324
Additions:				
Principal on new bonds	173,975,000	55,035,000	34,840,000	263,850,000
Premium on new bonds	17,043,429	3,486,448	1,146,252	21,676,129
Amortization of deferred amount on refunding	3,564,022	563,312	180,099	4,307,433
Deletions:				
Principal repayments	168,665,000	34,125,000	12,705,000	215,495,000
Principal on refunded bonds	177,000,000	30,415,000	10,640,000	218,055,000
Deferred amount on refunding	12,488,077	2,039,581	952,268	15,479,926
Amortization of premium	5,302,082	1,218,880	230,520	6,751,482
Amount outstanding, June 30, 2005	\$ 964,186,325	\$ 255,059,031	\$ 134,363,122	\$ 1,353,608,478
Amounts due in one year	<u>\$ 157,445,274</u>	<u>\$ 34,370,117</u>	<u>\$ 13,400,573</u>	<u>\$ 205,215,964</u>

The aggregate scheduled payments of interest and principal for bonds outstanding as of June 30, 2005 are as follows:

Years End June 30	Higher Education		Mental Health		Parks and Recreation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	155,315,000	45,254,103	33,650,000	11,070,794	13,340,000	5,136,808
2007	163,340,000	37,405,284	35,170,000	9,429,158	13,745,000	4,758,859
2008	173,885,000	29,242,846	32,130,000	7,964,553	14,755,000	4,255,017
2009	114,615,000	21,352,422	23,005,000	6,679,272	10,860,000	3,766,939
2010	109,370,000	15,046,097	25,355,000	5,614,997	11,990,000	3,365,456
2011-15	237,730,000	16,609,678	77,545,000	15,132,835	44,680,000	11,361,310
2016-20	-	-	23,630,000	2,419,150	23,735,000	2,746,950
Total	\$ 954,255,000	\$ 164,910,430	\$ 250,485,000	\$ 58,310,759	\$ 133,105,000	\$ 35,391,339

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 5 – RENTAL PAYMENTS AND BOND SERVICE FUNDS

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 Board of Regents, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities, and the Department of Natural Resources, from moneys appropriated for such purposes by the General Assembly. The respective obligations of the Board of Regents, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities, and the Department of Natural Resources, to make such rental payments pursuant to the respective leases 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 2004-05 biennium, the 125th General Assembly appropriated, from the General Revenue Fund, the amounts necessary to meet the payments required under such leases, not exceeding \$463,050,069 for higher education facilities, \$45,771,856 for mental health facilities and \$23,118,393 for parks and recreation facilities. Of these appropriated amounts, there have been paid to the Treasurer in Fiscal Year 2005 \$215,895,522 with respect to higher education, \$44,761,638 with respect to mental health facilities and \$16,533,053 with respect to parks and recreational 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 funds available to support rental payments required under the respective bond proceedings in the amount of \$594,892 for higher education capital facilities bonds, \$542,307 for mental health capital facilities bonds, and \$904,481 for parks and recreation capital facilities bonds. These unappropriated funds are comprised of interest earnings, accrued interest and original issue premium on bond sales, and, in the case of higher education, loan repayments to the Board of Regents.

The respective Bond Service Accounts under the Trust Agreements for the Mental Health Capital Facilities Bonds, Higher Education Capital Facilities Bonds, and the Parks and Recreation Capital Facilities Bonds, are restricted to payments of principal and interest on the Bonds issued and outstanding under those respective Trust Agreements. There are no funded debt service reserve funds on any of the outstanding Bonds of the Commission.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2005 consisted primarily of leases receivable from State agencies, accrued interest on the leases, and loans receivable from State universities.

Included in Leases Receivable from State agencies is an amount for premium on leases receivable resulting from the advance refunding of related bonds. This premium on lease receivable is amortized over the life of the refunding bonds. As of June 30, 2005, the unamortized portion was \$6,749,930.

STATE OF OHIO
Chapter 154 Bonds
Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

NOTE 7 – SECURITIES LENDING

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires disclosure of assets and liabilities arising from securities lending transactions. The Chapter 154 Bond's investments with the State's cash and investment pool and STAR Ohio are both subject to lending transactions by the Treasurer of State. In accordance with paragraph 9 of GASB Statement No. 28, the recording of assets and liabilities for securities lending transactions is based on the Chapter 154 Bond's share of the cash and investment pool, as of the balance sheet date, as calculated by the Office of Budget and Management.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

During 2005, it was determined from records of the Board of Regents that the amount of loans outstanding for The Ohio State University had been understated by \$380,901 in previous years. Beginning fund balance and net assets have been restated with an increase of \$380,901.

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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, State of Ohio
Columbus, Ohio

We have audited the financial statements of Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 (the Obligations) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 28, 2005. 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 Obligations internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessary disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Obligation's 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.

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Columbus, Ohio
September 28, 2005





**Auditor of State
Betty Montgomery**

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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 29, 2005**