

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

Financial Statements for the year ended June 30, 2006  
with  
Independent Auditors' Report Thereon

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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 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, 2005 through June 30, 2006. 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

January 8, 2007

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## 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, 2006, 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 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted 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, 2006, 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 27, 2006 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 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.

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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.

*Schneider Downs & Co. Inc.*

Columbus, Ohio  
September 27, 2006

TREASURER OF STATE  
LEASE REVENUE BONDS  
Management's Discussion & Analysis  
For the Year Ended June 30, 2006  
(UNAUDITED)

As management of the Treasurer of the State of Ohio, we offer readers of the financial statements of the Treasurer of State Lease Revenue Bonds this narrative overview and analysis of the Treasurer of State Lease Revenue Bond's financial activities for the fiscal year ended June 30, 2006.

**FINANCIAL HIGHLIGHTS**

- The liabilities of the Treasurer of State Lease Revenue Bonds exceeded its assets at the close of the most recent fiscal year by \$1.6 million (net assets deficit). All net assets are restricted for debt service.
- The Treasurer of State Lease Revenue Bonds' net assets decreased by \$109,731.
- As of the close of the most recent fiscal year, the Treasurer of State Lease Revenue Bonds' governmental funds reported combined ending fund balances of \$3.03 million, a decrease of \$863,738, or 22.2%, in comparison with the prior year. The entire ending fund balance is reserved.
- Total par amount of debt decreased by \$171 million (11.2%). Although new bonds were issued totaling \$60 million, principal retirements totaled \$231 million.
- New Mental Health Facilities Bonds were issued with a par value totaling \$30 million, and new Cultural and Sports Facilities Bonds with a par value totaling \$30 million were issued.
- Effective July 1, 2005, all matters relating to the issuance of obligations for financing of Cultural and Sports Facilities, including all Arts and Sports obligations previously issued by the Ohio Building Authority (Cultural and Sports Facilities Bonds), were transferred to the Treasurer of State of Ohio, as Issuing Authority. The transfer in of the obligations of the Cultural and Sports Facilities Bonds, has been accounted for consistent with a change in reporting entity and accordingly the net assets of the Funds as of July 1, 2005, have been restated. The transaction represented thirteen bond issuances with combined outstanding principal as of that date in the amount of \$184,150,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements of the Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue Bonds' finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Treasurer of State Lease Revenue Bonds' 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 Treasurer of State Lease Revenue 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 7 and 8 of this report.

TREASURER OF STATE  
LEASE REVENUE BONDS  
Management's Discussion & Analysis  
For the Year Ended June 30, 2006  
(UNAUDITED)

**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 Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue Bonds are considered to be governmental funds. The Treasurer of State Lease Revenue 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, Parks & Recreation, the Treasurer maintains a bond service fund and an administrative service fund, for a total of 6 governmental funds. For the Cultural and Sports capital facilities, the Treasurer maintains bond service funds, administrative funds, a revenue fund, and an operating and maintenance fund, which total 15 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 four categories of bonds issued.

The governmental fund financial statements can be found on Pages 9 and 10 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 Treasurer of State Lease Revenue Bonds, liabilities exceeded assets by \$1.6 million (deficit) at the close of the most recent fiscal year. All net assets are restricted for debt service.

TREASURER OF STATE  
LEASE REVENUE BONDS  
Management's Discussion & Analysis  
For the Year Ended June 30, 2006  
(UNAUDITED)

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

A comparative analysis of net assets as of June 30, 2006 versus June 30, 2005 follows:

**Net Asset Comparative Analysis**

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Current Assets	\$ 14,346,830	\$ 15,157,463	-5.35%
Leases Receivable	1,359,223,421	1,531,155,856	-11.23%
Other Assets	<u>5,091,602</u>	<u>5,241,542</u>	-2.86%
Total Assets	1,378,661,853	1,551,554,861	
Current Liabilities	11,317,052	12,194,533	-7.20%
Bonds Payable	<u>1,368,904,162</u>	<u>1,540,809,958</u>	-11.16%
Total Liabilities	1,380,221,214	1,553,004,491	
Net Assets (Deficit)	<u>\$ (1,559,361)</u>	<u>\$ (1,449,630)</u>	7.57%

Net assets decreased by \$109,731 during fiscal year 2006. 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 \$173 million reduction in bonds payable and the \$0.9 million reduction in current liabilities are mainly the result of a reduction in outstanding bond obligations and related interest charges due to principal repayments during fiscal year 2006. The corresponding asset accounts, leases receivable from state agencies and interest receivable, decreased by a like amount.

**Revenue and Expense Comparative Analysis**

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Charges for Services	\$ 68,495,905	\$ 71,829,224	-4.64%
Investment Income	<u>144,447</u>	<u>75,259</u>	91.93%
Total Program Revenues	68,640,352	71,904,483	
Interest on Debt	67,019,239	71,870,324	-6.75%
Other	<u>1,730,844</u>	<u>1,672,591</u>	3.48%
Total Expenses	68,750,083	73,542,915	
Net Expense	<u>\$ (109,731)</u>	<u>\$ (1,638,432)</u>	-93.30%

Both interest on debt and charges for services decreased because of a decrease in outstanding bond obligations during 2006.

For fiscal year 2006, 99.8% of total government-wide revenues were comprised of interest on leases from State agencies, and, accordingly, 97.7% of total government-wide expenses were for the payment of interest on outstanding debt.

TREASURER OF STATE  
LEASE REVENUE BONDS  
Management's Discussion & Analysis  
For the Year Ended June 30, 2006  
(UNAUDITED)

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

As of the end of the current fiscal year, the Treasurer of State Lease Revenue Bonds' governmental funds reported combined ending fund balances of \$3.03 million, a decrease of \$863,738 in comparison with the prior year.

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>2006</u>	<u>2005</u>	<u>% Change</u>
Investment Income	\$ 144,447	\$ 75,529	91.25%
Lease Payments from State Agencies	300,845,413	311,878,494	-3.54%
Bond Premiums	1,501,635	21,676,129	-93.07%
Proceeds of Refunding Bonds	-	215,750,000	-100.00%
	<u>\$ 302,491,495</u>	<u>\$ 549,380,152</u>	-44.94%

As the chart above indicates, for fiscal year 2006, 99.5% of governmental fund revenues were comprised of lease payments from state agencies. Total lease payments from state agencies decreased for fiscal year 2006 due to the corresponding decrease in outstanding debt and debt service requirements for the year.

Revenue from bond premiums decreased by \$20.2 million because of a significant decrease in bond issuance activity during 2006. A total of five bond issuances were completed in 2005 versus two issuances in 2006. Three refunding bonds were issued in 2005, versus none in 2006, which explains the decrease in proceeds of refunding bonds.

**Governmental Fund Expenditures  
Comparative Analysis**

<u>Expenditure</u>	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Administrative Costs	\$ 1,580,904	\$ 3,487,283	-54.67%
Debt Service Payments	301,774,329	312,939,124	-3.57%
Payments to Refunded Bond Escrow Agents	-	233,534,927	-100.00%
	<u>\$ 303,355,233</u>	<u>\$ 549,961,334</u>	-44.84%

As the chart above indicates, for 2006, 99.4% of the Chapter 154 Bond expenditures were for debt service payments. Debt service payments decreased for fiscal year 2006 due to the decrease in outstanding bonds payable from principal repayments. Administrative costs decreased mainly because of a decrease in bond issuance activity in fiscal year 2006 and a corresponding decrease in bond issuance costs. A total of two bond issuances were completed in 2006 versus five issuances in 2005. Three refunding bonds were issued in 2005, versus none in 2006, which explains the decrease in payments to refunded bond escrow agents.

TREASURER OF STATE  
LEASE REVENUE BONDS  
Management's Discussion & Analysis  
For the Year Ended June 30, 2006  
(UNAUDITED)

**BUDGETARY HIGHLIGHTS**

With regard to the Treasurer of State Lease Revenue Bonds, the Treasurer is not required to follow a legal budget, and, thus, budgetary highlights are not presented.

**DEBT**

At June 30, 2006, there was a total of \$1,351,165,000 (par amount) of outstanding bonds payable. The Treasurer paid \$230,830,000 of principal on bonds outstanding during the fiscal year, while new bonds were issued totaling \$60,000,000. The total par amount of debt decreased by \$171,000,000 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, \$1,340,000,000 for mental health, \$337,000,000 for parks and recreation, and \$420,000,000 for cultural and sports facilities. 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.

**ECONOMIC FACTORS**

- There remains \$47,915,000 in authorized by the General Assembly, but not yet issued, Mental Health Capital Facilities Bonds.
- There remains \$24,000,000 in authorized by the General Assembly, but not yet issued, Parks & Recreation Capital Facilities Bonds.
- There remains \$46,310,000 in authorized by the General Assembly, but not yet issued, Cultural and Sports Facilities Bonds.
- As of June 30, 2006, the obligations issued by the Treasurer were rated Aa2 by Moody's and AA by both Standard & Poor's and Fitch.

**CONTACTING THE TREASURER OF STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide an overview of the Treasurer of State Lease Revenue Bonds' finances. If you have questions about this report or need additional financial information, contact Jake Wozniak, Director of Debt Management, 30 East Broad Street, 9<sup>th</sup> Floor, Columbus, Ohio 43226.

STATE OF OHIO  
Chapter 154 Bonds  
Statement of Net Assets  
As of June 30, 2006

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	GOVERNMENTAL ACTIVITIES
<b>ASSETS:</b>	
Cash	\$ 7,859
Investments	3,043,542
Interest Receivable	11,295,429
Leases Receivable from State Agencies	1,359,223,421
Other Assets-Unamortized Bond Issue Costs	<u>5,091,602</u>
<b>TOTAL ASSETS</b>	<u>1,378,661,853</u>
<b>LIABILITIES:</b>	
Accounts Payable	21,623
Accrued Interest on Bonds	11,295,429
Special Obligation Bonds Payable, net of deferred amounts, premiums and discount:	
Due in One Year	247,130,199
Due in More Than One Year	<u>1,121,773,963</u>
<b>TOTAL LIABILITIES</b>	<u>1,380,221,214</u>
<b>NET ASSETS (DEFICIT):</b>	
Restricted for Debt Service	<u>(1,559,361)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>\$ (1,559,361)</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, 2006

	TOTAL	HIGHER EDUCATION FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	CULTURAL & SPORTS FACILITIES
<b>EXPENSES:</b>					
Administrative	\$ 807,634	\$ 41,162	\$ 31,314	\$ 21,632	\$ 713,526
Amortization of Bond Issue Costs	923,210	488,848	202,279	103,685	128,398
Interest on Debt	67,019,239	42,285,052	11,246,213	5,109,270	8,378,704
<b>TOTAL EXPENSES</b>	<b>68,750,083</b>	<b>42,815,062</b>	<b>11,479,806</b>	<b>5,234,587</b>	<b>9,220,628</b>
<b>PROGRAM REVENUES:</b>					
Charges for Services (1)	68,495,905	42,811,614	11,174,241	5,470,133	9,039,917
Restricted Investment Income	144,447	57,499	35,572	14,639	36,737
<b>TOTAL PROGRAM REVENUES</b>	<b>68,640,352</b>	<b>42,869,113</b>	<b>11,209,813</b>	<b>5,484,772</b>	<b>9,076,654</b>
<b>NET EXPENSE AND CHANGES IN NET ASSETS</b>	<b>(109,731)</b>	<b>54,051</b>	<b>(269,993)</b>	<b>250,185</b>	<b>(143,974)</b>
<b>NET ASSETS (DEFICIT), JULY 1</b>	<b>(1,449,630)</b>				
<b>NET ASSETS (DEFICIT), JUNE 30</b>	<b>\$ (1,559,361)</b>				

<sup>(1)</sup>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, 2006

	HIGHER EDUCATION FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	CULTURAL & SPORTS FACILITIES	TOTAL DEBT SERVICE
<b>ASSETS:</b>					
Cash	\$ -	\$ -	\$ -	\$ 7,859	\$ 7,859
Investments	1,751,817	656,414	510,616	124,695	3,043,542
<b>TOTAL ASSETS</b>	<u>1,751,817</u>	<u>656,414</u>	<u>510,616</u>	<u>132,554</u>	<u>3,051,401</u>
<b>LIABILITIES:</b>					
Accrued Liabilities	-	14,353	-	7,270	21,623
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>14,353</u>	<u>-</u>	<u>7,270</u>	<u>21,623</u>
<b>FUND BALANCES:</b>					
Reserved for Debt Service	1,751,817	642,061	510,616	125,284	3,029,778
<b>TOTAL FUND BALANCES</b>	<u>1,751,817</u>	<u>642,061</u>	<u>510,616</u>	<u>125,284</u>	<u>3,029,778</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,751,817</u>	<u>\$ 656,414</u>	<u>\$ 510,616</u>	<u>\$ 132,554</u>	

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	\$ 1,359,223,421
Interest receivable	11,295,429

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	(11,295,429)
Special Obligation Bonds Payable	(1,368,904,162)

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	5,091,602
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<b>Net Assets (Deficit) of Governmental Activities</b>	<u><u>\$ (1,559,361)</u></u>
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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, 2006

	HIGHER EDUCATION FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	CULTURAL & SPORTS FACILITIES	TOTAL DEBT SERVICE
<b>REVENUES:</b>					
Lease Payments from State Agencies	\$ 200,013,595	\$ 44,681,462	\$ 18,521,462	\$ 37,628,894	\$ 300,845,413
Investment Income	57,499	35,572	14,639	36,737	144,447
<b>TOTAL REVENUES</b>	<b>200,071,094</b>	<b>44,717,034</b>	<b>18,536,101</b>	<b>37,665,631</b>	<b>300,989,860</b>
<b>EXPENDITURES:</b>					
Administrative Costs	41,162	386,780	21,632	1,131,330	1,580,904
Debt Service:					
Principal	155,315,000	33,650,000	13,340,000	28,525,000	230,830,000
Interest	45,254,103	11,583,612	5,136,808	8,969,806	70,944,329
<b>TOTAL EXPENDITURES</b>	<b>200,610,265</b>	<b>45,620,392</b>	<b>18,498,440</b>	<b>38,626,136</b>	<b>303,355,233</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Bond Premiums	-	938,017	-	563,618	1,501,635
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>938,017</b>	<b>-</b>	<b>563,618</b>	<b>1,501,635</b>
<b>EXCESS (DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES(USES) OVER(UNDER) EXPENDITURES</b>					
	(539,171)	34,659	37,661	(396,887)	(863,738)
<b>FUND BALANCE, JULY 1</b>	<b>2,290,988</b>	<b>607,402</b>	<b>472,955</b>	<b>522,171</b>	
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 1,751,817</b>	<b>\$ 642,061</b>	<b>\$ 510,616</b>	<b>\$ 125,284</b>	

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

The principal portion of lease payments from state agencies provides current financial resources to the debt service fund, but reduces leases receivable in the Statement of Net Assets.	\$ (232,349,508)
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.	229,328,365
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	3,925,090
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	773,270 (923,210)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (109,731)</b>

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, 2006

**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.

Pursuant to House Bill 16 of the 126<sup>th</sup> General Assembly (effective July 1, 2005) all matters relating to the issuance of obligations for financing of Cultural and Sports Facilities, including all Arts and Sports obligations previously issued by the Ohio Building Authority, under Ohio Revised Code Chapter 152, were transferred to the Treasurer of State of Ohio, as Issuing Authority. The transaction represented thirteen bond issuances with combined outstanding principal as of that date in the amount of \$184,150,000. Subsequent to July 1, 2005, all new issuances of Cultural and Sports Facilities bonds will be governed by Chapter 154 of the Ohio Revised Code, and the provisions thereof, as described above.

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 Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue Bonds' 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.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Government-wide Financial Statements*

The statement of net assets and the statement of activities display information about the Treasurer of State Lease Revenue Bonds as a whole.

The statement of net assets presents the financial condition of the governmental activities of the Treasurer of State Lease Revenue Bonds at year-end. The statement of activities presents a comparison between direct expenses and program revenues for the Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue 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 Treasurer of State Lease Revenue Bonds are included on the Statement of Net Assets.

*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.

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**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.

**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, 2006.

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 that 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 Treasurer of State Lease Revenue Bonds, the Treasurer is not required to follow a legal budget or to present a budgetary statement.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 and short-term investment accounts. 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 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, 2006.

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

	<u>Book Value</u>	<u>Market Value</u>
STAR Ohio (Higher Education)	\$1,751,817	\$1,751,817
STAR Ohio (Mental Health)	656,414	656,414
STAR Ohio (Parks & Recreation)	510,616	510,616
Fifth-Third U.S. Treasury Fund (Cultural and Sports Facilities)	<u>124,695</u>	<u>124,695</u>
TOTAL	<u>\$3,043,542</u>	<u>\$3,043,542</u>

*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. Approximately 96% 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, 2006, all investments were in the name of the Treasurer.

As of June 30, 2006, the carrying amounts of the Treasurer's deposits relating to the Obligations totaled \$7,859, the same as the bank balance. Of this balance, the entire amount was insured by the Federal Deposit Insurance Corporation.

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**NOTE 4 – BONDS AND NOTES**

The Ohio General Assembly, up through and including the 126<sup>th</sup> General Assembly, has authorized issuance of the following amounts of special obligation bonds and bond anticipation notes for capital facilities:

Higher Education Facilities	\$4,817,590,000 (a)
Mental Health Facilities	1,340,000,000
Parks and Recreation Facilities	337,000,000
Cultural and Sports Facilities	<u>420,000,000</u>
Total Authorized	<u>\$6,914,590,000</u>

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

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, 2006(d)
<b>Higher Education</b>					
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-

STATE OF OHIO  
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**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, 2006(d)
<b>Higher Education (continued)</b>					
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-
Series II-1995B	140,000,000	10-1-95	11-1-10	5.121	-0-
Series II-1996A	150,000,000	2-1-96	11-1-10	5.627	-0-
Series II-1996B	150,000,000	10-1-96	11-1-11	5.143	9,700,000
Series II-1997A	282,300,000	4-1-97	5-1-12	5.066	9,700,000
Series II-1997B	236,500,000	10-1-97	11-1-12	4.746	19,000,000
Series II-1998A	254,200,000	3-1-98	12-1-12	4.522	19,000,000
Series II-1998B	150,000,000	7-1-98	6-1-13	4.693	19,000,000
Series II-1998C	150,000,000	12-1-98	6-1-13	4.414	19,000,000
Series II-1999A	100,000,000	8-1-99	11-1-13	4.853	17,600,000
Series II-2001A	394,495,000	4-1-01	12-1-11	4.251	276,505,000
Series II-2002A	253,275,000	8-1-02	12-1-12	3.544	204,395,000
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>
<b>TOTAL</b>	<b><u>\$4,817,590,000(a)</u></b>				<b><u>\$798,940,000(d)</u></b>

STATE OF OHIO  
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**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, 2006(d)
<b>Mental Health</b>					
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	-0-
Series II-1996B	40,000,000	10-1-96	6-1-11	5.200	-0-
Series II-1997A	40,000,000	12-1-97	12-1-12	4.807	5,800,000
Series II-1998A	60,800,000	7-1-98	6-1-13	4.634	5,800,000
Series II-2000A	30,000,000	6-1-00	6-1-15	5.286	17,060,000
Series II-2001A	56,970,000	4-1-01	12-1-10	4.112	38,365,000
Series II-2001B	30,000,000	8-1-01	6-1-16	4.540	19,685,000
Series II-2002A	30,000,000	8-1-02	6-1-17	4.194	21,435,000
Series II-2002B	38,065,000	8-1-02	12-1-10	3.112	22,890,000
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	26,440,000
Series II-2004A	30,035,000	10-5-04	8-1-12	3.536	29,335,000
Series II-2004B	25,000,000	12-29-04	6-1-19	3.536	21,810,000
Series II-2005A	30,000,000	8-31-05	8-1-19	4.366	30,000,000
<b>TOTAL</b>	<b><u>\$1,292,085,000(b)</u></b>				<b><u>\$246,835,000(d)</u></b>

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**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, 2006(d)
<b>Parks and Recreation</b>					
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	1,400,000
Series II-2000A	20,000,000	2-1-00	12-1-14	5.472	5,400,000
Series II-2001A	25,000,000	2-1-01	12-1-15	4.576	16,475,000
Series II-2001B	20,935,000	4-1-01	12-1-09	4.019	13,870,000
Series II-2002A	25,000,000	5-1-02	6-1-17	4.459	17,890,000
Series II-2002B	9,675,000	8-1-02	12-1-07	2.524	3,750,000
Series II-2003A	6,425,000	2-1-03	6-1-12	3.575	6,165,000
Series II-2004A	25,000,000	3-11-04	12-1-18	4.107	21,685,000
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>21,815,000</u>
<b>TOTAL</b>	<b><u>\$313,000,000(c)</u></b>				<b><u>\$119,765,000(d)</u></b>

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2006
<b>Cultural and Sports Facilities</b>					
Series 1992A	\$ 5,000,000	4-9-92	4-8-93	3.500%	-0-
Series 1993A	10,000,000	6-1-93	10-1-07	4.477	\$ 1,775,000
Series 1993A	35,000,000	6-1-93	10-1-07	4.477	6,290,000
Series 1996A	10,000,000	4-1-96	10-1-05	4.370	-0-
Series 1997A	40,000,000	1-15-97	10-1-06	4.965	4,980,000
Series 1997A	37,000,000	1-15-97	10-1-11	4.745	18,105,000
Series 1999A	75,000,000	3-15-99	10-1-08	5.000	26,550,000
Series 1999A	39,000,000	3-15-99	10-1-13	4.400	23,835,000
Series 2001A	29,000,000	2-1-01	4-1-16	4.817	21,615,000
Series 2001A	23,690,000	2-1-01	4-1-16	4.423	17,490,000
Series 2003A	20,000,000	3-14-03	4-1-18	3.528	16,715,000
Series 2004A	20,000,000	10-21-04	10-1-14	3.570	18,270,000
Series 2005A	<u>30,000,000</u>	8-31-05	4-1-20	4.608	<u>30,000,000</u>
<b>TOTAL</b>	<b><u>\$373,690,000</u></b>				<b><u>\$185,625,000</u></b>

(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.

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**NOTE 4 – BONDS AND NOTES (Continued)**

- (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.

The Obligations outstanding at June 30, 2006 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 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 prior years, the Treasurer advance refunded certain lease revenue bonds by placing the proceeds of new bonds in an irrevocable trust. The trustee is provided funds that 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, 2006, the following refunded bonds were yet to come due and were still payable by the trustee from escrowed funds:

Refunded Issue	Principal Yet to Be Paid As of June 30, 2006	Date Bonds will be Redeemed
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-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>\$428,195,000</u>	

STATE OF OHIO  
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Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

**NOTE 4 – BONDS AND NOTES (Continued)**

A schedule of changes in the carrying amount of the Treasurer of State Lease Revenue Bonds during 2006 follows:

	Higher Education Facilities	Mental Health Facilities	Parks & Recreation Facilities	Cultural & Sports Facilities	Total
Amount outstanding, June 30, 2005	\$ 964,186,325	\$ 255,059,031	\$ 134,363,122	\$ 187,201,480	\$ 1,540,809,958
Additions:					
Principal on new bonds	-	30,000,000	-	30,000,000	60,000,000
Premium on new bonds	-	938,017	-	1,484,118	2,422,135
Amortization of deferred amount on refunding	4,708,474	714,188	240,312	-	5,662,974
Deletions:					
Principal repayments	155,315,000	33,650,000	13,340,000	28,525,000	230,830,000
Amortization of premium	6,838,748	1,434,305	300,885	586,967	9,160,905
Amount outstanding, June 30, 2006	<u>\$ 806,741,051</u>	<u>\$ 251,626,931</u>	<u>\$ 120,962,549</u>	<u>\$ 189,573,631</u>	<u>\$ 1,368,904,162</u>
Amount due in one year	<u>\$ 165,347,465</u>	<u>\$ 37,668,606</u>	<u>\$ 13,820,407</u>	<u>\$ 30,293,721</u>	<u>\$ 247,130,199</u>

The aggregate scheduled payments of interest and principal for bonds outstanding as of June 30, 2006 are as follows:

Year Ended	Higher Education Facilities		Mental Health Facilities		Parks & Recreation Facilities		Cultural & Sports Facilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
June 30								
2007	\$ 163,340,000	\$ 37,405,284	\$ 36,940,000	\$ 10,625,220	\$ 13,745,000	\$ 4,758,859	\$ 29,575,000	\$ 8,186,218
2008	173,885,000	29,242,846	33,855,000	9,107,111	14,755,000	4,255,017	26,415,000	6,913,128
2009	114,615,000	21,352,422	24,785,000	7,765,951	10,860,000	3,766,939	23,240,000	5,822,550
2010	109,370,000	15,046,097	27,190,000	6,641,786	11,990,000	3,365,456	14,560,000	4,981,208
2011	98,210,000	9,642,003	23,550,000	5,537,618	8,955,000	2,986,623	15,245,000	4,294,183
2012-16	139,520,000	6,967,676	76,055,000	15,421,899	43,585,000	9,510,911	62,525,000	11,398,104
2017-20	-	-	24,460,000	2,151,242	15,875,000	1,610,725	14,065,000	1,623,750
Total	<u>\$ 798,940,000</u>	<u>\$ 119,656,328</u>	<u>\$ 246,835,000</u>	<u>\$ 57,250,827</u>	<u>\$ 119,765,000</u>	<u>\$ 30,254,530</u>	<u>\$ 185,625,000</u>	<u>\$ 43,219,141</u>

STATE OF OHIO  
Chapter 154 Bonds  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

**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, the Department of Natural Resources, and the Ohio Cultural Facilities Commission, 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, the Department of Natural Resources, and the Ohio Cultural Facilities Commission 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 2006-07 biennium, the 126th General Assembly appropriated, from the General Revenue Fund, the amounts necessary to meet the payments required under such leases, not exceeding \$401,414,500 for higher education facilities, \$94,259,600 for mental health facilities, \$39,661,900 for parks and recreation facilities, and \$76,373,100 for cultural and sports facilities. Of these appropriated amounts, the following have been paid to the Treasurer in Fiscal Year 2006: \$200,013,595 with respect to higher education, \$44,681,462 with respect to mental health facilities, \$18,521,462 with respect to parks and recreational facilities, and \$37,628,894 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 funds available to support rental payments required under the respective bond proceedings in the amount of \$605,509 for higher education capital facilities bonds, \$632,150 for mental health capital facilities bonds, \$25,346 for parks and recreation capital facilities bonds and \$540,912 for cultural and sports 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, Parks and Recreation Capital Facilities Bonds, and the Cultural and Sports 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, 2006 consisted primarily of leases receivable from State agencies and accrued interest on the leases.

Included in Leases Receivable from State agencies is an amount for premium on leases receivable resulting from both the advance refunding of related bonds and the premium received on other bond issues. This premium on lease receivable is amortized over the life of the refunding bonds. As of June 30, 2006, the unamortized portion was \$8,058,421.

STATE OF OHIO  
Chapter 154 Bonds  
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For the Year Ended June 30, 2006

**NOTE 7 – PRIOR PERIOD RESTATEMENT**

Pursuant to House Bill 16 of the 126<sup>th</sup> General Assembly (effective July 1, 2005) all matters relating to the issuance of obligations for financing of Cultural and Sports Facilities, including all Arts and Sports obligations previously issued by the Ohio Building Authority, under Ohio Revised Code Chapter 152, were transferred to the Treasurer of State of Ohio, as Issuing Authority. The transfer in of the obligations of the Cultural and Sports Facilities, including all Arts and Sports obligations previously issued by the Ohio Building Authority, has been accounted for consistent with the change in reporting entity and accordingly the fund balance of net assets of the fund as of July 1, 2005, have been restated. The transaction represented twelve bond issuances with combined outstanding principal as of that date in the amount of \$184,150,000. The transaction included the corresponding leases receivable related to the outstanding bonds payable. The effect of this transaction on the net assets and fund balances of the Treasurer of State Lease Revenue Bonds was as follows:

	<u>Net Assets</u>	<u>Fund Balance</u>
Balance as of June 30, 2005	\$ (1,606,975)	\$ 3,371,347
Adjustment:		
Balance of Cultural and Sports Facilities Bonds as of June 30, 2005	157,345	522,169
Balance as of July 1, 2005, as restated	<u>\$ (1,449,630)</u>	<u>\$ 3,893,516</u>

**NOTE 8 – SUBSEQUENT EVENT**

On August 10, 2006, the Treasurer of State issued new Mental Health Capital Facilities Bonds (Series II – 2006A) with a par value of \$30,000,000, a maturity date of June 1, 2016, and an average effective interest rate of 4.094%.

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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 of State of Ohio  
Columbus, Ohio

We have audited the financial statements of 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, 2006, and have issued our report thereon dated September 27, 2006. 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 Funds' 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 Funds' financial statements are free of material misstatement, we performed tests of their 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

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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.

*Schmidt Downs . Co. Inc.*

Columbus, Ohio  
September 27, 2006





**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  
JANUARY 23, 2007**