

RICHARD CORDRAY

OHIO TREASURER *of* STATE



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DATE: **October 1, 2008**

TO: **Ted Strickland, Governor**
 Ohio General Assembly

FROM: **Richard Cordray, Treasurer of State**

TREASURER OF STATE LEASE-RENTAL OBLIGATIONS
(Chapter 154 & 152 O.R.C.)
ANNUAL REPORT

AND

ACCOUNTANTS' REPORT

FISCAL YEAR 2008
(July 1, 2007 --- June 30, 2008)

HIGHER EDUCATION CAPITAL FACILITIES
MENTAL HEALTH CAPITAL FACILITIES
PARKS & RECREATION CAPITAL FACILITIES
AND
CULTURAL & SPORTS FACILITIES

LEASE - RENTAL OBLIGATIONS

ANNUAL REPORT

For the period July 1, 2007 through June 30, 2008

The Treasurer of State (the Treasurer) makes this annual report for the Fiscal Year ending June 30, 2008 (FY 2008) in accordance with Section 154.05(B) of the Revised Code and its lease-rental bond proceedings.

Chapter 154 of the Revised Code (the Act), was enacted pursuant to the power granted to the General Assembly by the Ohio Constitution, and particularly Section 2i of Article VIII which authorizes the issuance for stated purposes of revenue obligations 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 Act originally authorized the Ohio Public Facilities Commission to issue obligations of the State to pay costs of capital facilities for (a) mental hygiene and retardation, (b) state supported and state assisted institutions of higher education, (c) parks and recreation, and (d) housing of branches and agencies of state government (for which no specific authorization to issue obligations was ever granted and which was repealed in FY 2001). Am. Sub. H.B. 640, 123rd General Assembly, effective September 14, 2000, however, reassigned to the Treasurer the issuing authority and functions of the Commission with respect to these special obligations (lease-rental) bonds (the Obligations). The Treasurer succeeded the Commission as issuer and with all responsibilities and obligations under the bond proceedings relating to previously issued Obligations.

Pursuant to House Bill 16 of the 126th 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 may issue Obligations only as authorized by the General Assembly, which has authorized lease-rental obligations for capital facilities projects in aggregate principal amounts of up to \$4,817,590,000 for higher education, \$1,517,000,000 for mental health, \$418,000,000 for parks and recreation, and \$512,000,000 for cultural and sports facilities. (There is currently no General Assembly authorization for additional lease-rental obligations for higher education projects; however, bonds may be issued to refund outstanding bonds). Within these authorizations, the Treasurer issued the following Obligations in FY 2008:

<u>Category & Series No.</u>	<u>Amount</u>	<u>Dated Date</u>	<u>Final Maturity Date</u>
Parks & Recreation – II – 2007A	\$30,000,000	11/13/2007	12/01/2017

The Treasurer of State did not issue refunding bonds in FY 2008.

The principal and interest requirements on the Obligations sold and delivered in FY 2008 are set forth in the attached Schedule No. 1. The Obligations issued in FY 2008 were sold at either public or private sale pursuant to Section 154.08 of the Revised Code. No bond anticipation notes were issued.

As of June 30, 2008, the Obligations issued by the Treasurer in FY 2008 were rated Aa2 by Moody's, and AA by both Standard & Poor's and Fitch. All maturities in the Obligations sold were insured, thereby receiving the AAA rating of the insurer.

As contemplated by the Act, the financing arrangements for the four categories of capital facilities -- higher education, mental health, parks and recreation, and cultural and sports facilities -- involve separate proceedings and separate leasing arrangements between the Commission (its only remaining responsibility with regard to the Obligations) and the Using Agencies, being respectively the Ohio Board of Regents (Regents), the Department of Mental Health (DMH) and the Department of Mental Retardation and Developmental Disabilities (DMRDD), the Department of Natural Resources (DNR), and the Cultural and Sports Facilities (Cultural Facilities), under which the Commission undertakes to finance capital facilities designated by or pursuant to acts of the General Assembly. In turn, the Regents make those higher education facilities available to the state, and DMH, DMRDD, DNR, and Cultural Facilities (and in certain cases, the Department of Alcohol and Drug Addiction Services) assume the management of those facilities intended for the particular department's use. Each Using Agency agrees, in accordance with the applicable lease and the supplements to it entered into in connection with each bond or note issuance, to pay rent in amounts sufficient to pay principal of and interest on the obligations issued, to establish and maintain any applicable required reserve, and to pay incidental expenditures, such as bond issuance costs.

As provided in each lease, the agreement of the Using Agency to pay rent during any period for which appropriations may lawfully be made by the General Assembly is effective and binding only when and to the extent that funds have been appropriated and are available for that purpose and that period. Bondholders have no right to have excises or taxes levied by the General Assembly for the payment of principal, interest or any call premium.

Trust agreements provide for additional security for the Obligations, each in form and content appropriate to the type of financing. The trustee for the higher education and parks and recreation Obligations is US Bank (successor to National City Bank). The trustee for the mental health Obligations is Huntington National Bank. The trustee for the cultural and sports facilities Obligations is The Bank of New York Mellon.

The bond proceedings pursuant to which Obligations have been issued beginning in FY 1991 (the Series II Bonds) impose no requirement of a bond service reserve. Instead, they permit,

but do not require, provision for a bond service reserve applicable to particular issues. The proceedings for each series of Series II Bonds issued in FY 1991 and FY 1992 variously required a funded or insured bond service reserve applicable only to the particular series in the amount of one-half the highest future annual principal and interest payments on that series. For Series II Bonds issued after FY 1992, including those issued in FY 2001, no reserve fund of any kind has been established. All Series II Bonds for which a funded bond service reserve fund was established have either matured or been refunded or redeemed. Thus, there are currently no funded bond service reserve funds securing any of the outstanding Bonds.

For the biennium ending June 30, 2009, the General Assembly, by Acts passed prior to July 1, 2008 appropriated from the general revenue fund the following amounts for rental payments under the lease agreements relating to the respective categories of Obligations:

<u>Appropriation to:</u>	<u>Biennial Amount</u>	<u>FY2008</u>	<u>FY2009</u>
Board of Regents	\$339,195,400	\$203,177,900	\$136,017,500
Department of Mental Health	\$44,271,900	\$23,767,400	\$20,504,500
Department of Mental Retardation and Developmental Disabilities	\$44,271,900	\$23,767,400	\$20,504,500
Department of Natural Resources	\$37,905,600	\$19,589,400	\$18,316,200
Cultural Facilities	\$74,060,100	\$36,604,600	\$37,455,500

These appropriations have been, and in the Office of Budget and Management's judgment will be, sufficient to pay amounts needed during the current biennium for bond service charges and expenditures (primarily issuance costs) payable from the respective administrative service funds.

The following table sets forth certain information with respect to the Obligations as required by Section 154.05 of the Revised Code.

OBLIGATIONS AUTHORIZED -- ISSUED
(AS OF JUNE 30, 2008)

	Higher Education Facilities	MH and MRDD Facilities	Parks and Recreation Facilities	Cultural and Sports Facilities
Authorized by General Assembly	\$4,817,590,000(d)	\$1,517,000,000	\$418,000,000	\$512,000,000
Issued in Prior Fiscal Years (a)	\$4,817,590,000	\$1,322,085,000	\$313,000,000	\$398,690,000
Issued in FY2008 (b)	\$0	\$0	\$30,000,000	\$0
Authorized by the General Assembly but not yet issued	\$0	\$194,915,000	\$75,000,000	\$113,310,000
Interest Paid FY2008	\$29,242,846	\$10,129,702	\$4,764,366	\$7,779,503
Principal Paid FY2008	\$173,885,000	\$36,595,000 (e)	\$14,825,000 (f)	\$28,095,000 (g)
Outstanding Principal (c)	\$461,715,000	\$202,445,000	\$121,845,000	\$153,190,000

- (a) Includes Bonds advance refunded; excludes advance refunding Bonds. Includes portions of Bond anticipation notes retired from rental payments (\$3,000,000 mental health, \$900,000 parks and recreation, \$5,000,000 cultural and sports facilities).
- (b) Excludes advance refunding bonds.
- (c) Includes advance refunding Bonds; excludes Bonds advance refunded
- (d) Reflects anticipated future issuances for higher education facilities to be by general obligation bonds.
- (e) Excludes \$145,000 principal increased by refunding.
- (f) Excludes \$650,000 principal increased by refunding.
- (g) Excludes \$235,000 principal increased by refunding.

The primary source of moneys for payment of principal of and interest on outstanding Obligations in FY 2008, as in prior years, was funds appropriated by the General Assembly for the purpose. Original issue premium and accrued interest paid by original purchasers of bonds were applied to either bond service charges or the applicable improvement funds.

The amounts credited, in accordance with the leases and supplements, to the higher education, mental health, parks and recreation, and cultural and sports facilities bond service funds, and to the administrative service funds (to pay expenditures, including issuing costs), during FY 2008, and the balances in those funds on June 30, 2008, are shown in the financial statements that

follow. Except for moneys held for obligations not yet presented for payment, amounts in those bond service funds are not restricted to payments of bond service charges on particular issues of Bonds. Amounts held in escrow for Bonds advance refunded are restricted to payment of debt service and any redemption premium on those advance refunded bonds.

The amounts, and the dates by which funds must be made available, to make payment during FY 2009 of principal of and interest on the Bonds outstanding on June 30, 2008 (which excludes Bonds advance refunded) are as follows:

	Higher Education Facilities	MH and MRDD Facilities	Parks and Recreation Facilities	Cultural and Sports Facilities
August 1, 2008	\$4,006,250	\$3,039,628	\$616,114	\$0
October 1, 2008	\$0	\$0	\$0	\$20,489,438
November 1, 2008	\$6,237,250	\$0	\$0	\$0
December 1, 2008	\$100,336,551	\$14,142,256	\$11,939,806	\$0
February 1, 2009	\$4,006,250	\$1,230,703	\$1,911,114	\$0
April 1, 2009	\$0	\$0	\$0	\$11,140,219
May 1, 2009	\$0	\$0	\$0	\$0
June 1, 2009	\$21,381,121	\$17,901,356	\$3,270,931	\$0
Total for Fiscal Year	\$135,967,422	\$36,313,943	\$17,737,965	\$31,629,657

The anticipated sources of payment of amounts for outstanding Bonds and for additional mental health, parks and recreation, and cultural and sports facilities Bonds that may be issued during FY 2009 will be, pursuant to the respective leases and supplements, moneys available for the purpose in the respective bond service accounts and the moneys appropriated by the 127th General Assembly for the fiscal biennium ending June 30, 2009 (as shown on page 4). These respective amounts have been and will be sufficient to pay during the biennium all principal and interest requirements on the Bonds outstanding as of June 30, 2008, principal and interest on additional obligations that are projected to be issued in the biennium, and related applicable administrative and issuance expenditures.

The Accountants' Report and Financial Statements that follow are incorporated as part of this Annual Report.

SCHEDULE NO. 1**\$30,000,000**

State of Ohio

Parks and Recreation Capital Facilities Bonds

Series II - 2007A

Date of Sale: 11/13/2007

Bid submitted by: ROBERT W. BAIRD & CO., INC., Huntington Capital Corp.

Date	Principal	Coupon	Interest	Total P+I
12/01/2007	-	-	-	-
06/01/2008	-	-	660,000.00	660,000.00
12/01/2008	2,035,000.00	4.000%	600,000.00	2,635,000.00
06/01/2009	-	-	559,300.00	559,300.00
12/01/2009	2,635,000.00	4.000%	559,300.00	3,194,300.00
06/01/2010	-	-	506,600.00	506,600.00
12/01/2010	2,740,000.00	4.000%	506,600.00	3,246,600.00
06/01/2011	-	-	451,800.00	451,800.00
12/01/2011	2,855,000.00	4.000%	451,800.00	3,306,800.00
06/01/2012	-	-	394,700.00	394,700.00
12/01/2012	2,970,000.00	4.000%	394,700.00	3,364,700.00
06/01/2013	-	-	335,300.00	335,300.00
12/01/2013	3,090,000.00	4.000%	335,300.00	3,425,300.00
06/01/2014	-	-	273,500.00	273,500.00
12/01/2014	3,215,000.00	4.000%	273,500.00	3,488,500.00
06/01/2015	-	-	209,200.00	209,200.00
12/01/2015	3,350,000.00	4.000%	209,200.00	3,559,200.00
06/01/2016	-	-	142,200.00	142,200.00
12/01/2016	3,485,000.00	4.000%	142,200.00	3,627,200.00
06/01/2017	-	-	72,500.00	72,500.00
12/01/2017	3,625,000.00	4.000%	72,500.00	3,697,500.00
Total	\$30,000,000.00	-	\$7,150,200.00	\$37,150,200.00
Bond Year Dollars				\$178,755.00
Average Life				5.959 Years
Average Coupon				4.000000%
Net Interest Cost (NIC)				3.8159212%
True Interest Cost (TIC)				3.7874890%
Bond Yield for Arbitrage Purposes				3.7295910%
All Inclusive Cost (AIC)				3.8631449%
IRS Form 8038				
Net Interest Cost				3.6851857%
Weighted Average Maturity				5.956 Years
Bond Counsel: Carlile Patchen & Murphy LLP				
Underwriters Counsel: Peck, Shaffer & Williams LLP				
Financial Advisor: PRISM Municipal Advisors				

The following accountants' report by Schneider Downs and Company, Inc. is provided in accordance with the respective general bond resolutions adopted with regard to the State of Ohio higher education facilities, mental health facilities, parks and recreation facilities and cultural and sports facilities Bonds.

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

Financial Statements
and
Supplementary Financial Information
For the Year Ended June 30, 2008
and Independent Auditors' Report Thereon

**STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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INSIGHT ■ INNOVATION ■ EXPERIENCE

INDEPENDENT AUDITORS' REPORT

Treasurer of State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the Debt Service Funds as held in the name of the Treasurer of the State of Ohio (the Funds) of the Higher Education Capital Facilities, Mental Health Capital Facilities, Parks and Recreation Capital Facilities, and Cultural and Sports Capital Facilities Lease Revenue Bonds Governed by the Ohio Revised Code Chapter 154 (the Obligations), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Treasurer of State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the Treasurer of the State of Ohio (which is part of the reporting entity of the State of Ohio) as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally in the United States of America.

In our opinion, the financial statements referred to in the first paragraph of this report present fairly, in all material aspects, the financial position of the Funds as of June 30, 2008, and the 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 26, 2008 on our consideration of the Funds' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to

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

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Fund's basic financial statements. The supplemental schedules on pages 15 through 27, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schneider, Downs & Company, Inc.

Columbus, Ohio
September 26, 2008

STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
Management's Discussion and Analysis
As of and For the Year Ended June 30, 2008
(UNAUDITED)

This section of the annual financial report for the Chapter 154 Lease Revenue Obligations presents management's discussion and analysis of financial performance during the year ended June 30, 2008. The management's discussion and analysis section should be read in conjunction with the Chapter 154 Lease Revenue Obligations debt service funds' financial statements, which follow. Chapter 154 refers to a chapter in the Ohio Revised Code (Ohio's statutes) entitled, *Financing for Certain Capital Facilities*.

FINANCIAL HIGHLIGHTS

- As of June 30, 2008, total debt service fund assets exceeded liabilities by \$6.96 million. The total combined ending fund balance, which is reserved for debt service, decreased by \$8.75 million during fiscal year 2008.
- For fiscal year 2008, other financing sources from lease principal payments from state agency-lessees totaled \$244.73 million, and lease interest revenue was reported at \$51.44 million.
- During fiscal year 2008, the Treasurer of State issued \$30 million in new bonds with a total premium of \$463 thousand. In addition, \$253.40 million in bond principal and \$51.94 million in bond interest were paid to bondholders.

OVERVIEW OF THE FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

In addition, supplementary financial information follows the notes. Supplementary financial information, which can be found on pages 15 to 27, provides additional information that is considered to be useful to certain users of the financial statements.

(Continued)

STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
Management's Discussion and Analysis (Continued)
As of and For the Year Ended June 30, 2008
(UNAUDITED)

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

A comparative balance sheet analysis follows:

Balance Sheet Comparative Analysis (Dollars in 000s)			
	As of 06/30/08	As of 06/30/07	Percentage Change
ASSETS:			
Cash and Investments	\$ 166	\$ 224	(25.89)%
Receivable from State Agencies:			
Lease Principal	939,195	1,162,595	(19.22)
Lease Interest	8,721	10,114	(13.77)
Other Receivable	226	—	100.00
Total Assets	<u>\$948,308</u>	<u>\$1,172,933</u>	(19.15)
LIABILITIES:			
Accounts Payable & Other Liabilities	\$ 26	\$ 28	(7.14)
Deferred Revenue	941,326	1,157,203	(18.66)
Total Liabilities	<u>941,352</u>	<u>1,157,231</u>	(18.65)
FUND BALANCE:			
Reserved for Debt Service	6,956	15,702	(55.70)
Total Liabilities and Fund Balance	<u>\$948,308</u>	<u>\$1,172,933</u>	(19.15)

The significant 55.70 percent decrease in fund balance since fiscal year 2007 is primarily attributable to the recognition of \$8.73 million in lease principal due from the Ohio Board of Regents in fiscal year 2007. This balance was accrued to the debt service fund as an "other financing source," since it was both measurable and available for collection within 60 days of June 30, 2007. There was no similar accrual relative to the leases receivable from the Ohio Board of Regents, as of June 30, 2008, because no lease principal was collectible from the Board of Regents within 60 days of year-end.

The following tables compare debt service fund revenues, expenditures, and other financing sources/(uses) reported for fiscal year 2008 with fiscal year 2007 results.

Revenue Comparative Analysis (Dollars in 000s)				
	Fiscal Year 2008	Percent of Total 2008 Revenue	Fiscal Year 2007	Percentage Change
Lease Interest from State Agencies	\$51,441	98.12%	\$60,919	(15.56)%
Administrative Fees	723	1.38	781	(7.43)
Other Interest Income	264	.50	73	261.64
Total Revenue	<u>\$52,428</u>	<u>100.00%</u>	<u>\$61,773</u>	(15.13)

As the above table indicates, 98.12 percent of debt service fund revenues for fiscal year 2008 were comprised of lease interest. Lease interest from state agencies primarily decreased for fiscal year 2008 due to the corresponding decrease in debt service expenditures for bond interest paid. The significant increase in other interest income during fiscal year 2008 is attributable to excess interest earned on refunded bond escrow accounts relative to the issuance of the Mental Health Capital Facilities Bonds, Series II-2001A. The refunding escrow agent bank returned the excess earnings in the amount of \$226 thousand to the State, which in turn, rebated and paid the balance to the federal government in July 2008 as a matter of arbitrage tax compliance.

(Continued)

STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
Management's Discussion and Analysis (Continued)
As of and For the Year Ended June 30, 2008
(UNAUDITED)

Expenditures
Comparative Analysis
(Dollars in 000s)

	Fiscal Year 2008	Percent of Total 2008 Expenditures	Fiscal Year 2007	Percentage Change
Administrative Costs	\$ 779	.25%	\$ 799	(2.50)%
Debt Service:				
Principal	253,400	82.71	244,600	3.60
Interest	51,937	16.95	61,724	(15.86)
Bond Issue Costs	251	.09	1,304	(80.75)
Total Expenditures.....	\$306,367	100.00%	\$308,427	(.67)

As the table above shows, 99.75 percent of total reported expenditures for fiscal year 2008 were for debt service payments. Bond issue costs decreased significantly because only one bond sale occurred during fiscal year 2008 versus a total of five bond issuances, including three advance refunding issues, during fiscal year 2007. Interest expenditures for fiscal year 2008 came in lower than the reported interest expenditures for fiscal year 2007 by 15.86 percent, due to the declining balance of outstanding bond principal. Outstanding bond principal was \$939.20 million, as of June 30, 2008, versus \$1.16 billion, as of June 30, 2007.

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

	Fiscal Year 2008	Fiscal Year 2007	Percentage Change
Lease Principal Payments from State Agencies	\$244,730	\$253,280	3.38%
Bond Proceeds:			
Principal	30,000	55,000	(45.45)
Premium	463	1,132	(59.10)
Refunding Bond Proceeds:			
Principal	—	70,480	(100.00)
Premium	—	4,732	(100.00)
Payment to Refunding Escrow Agent	—	(74,485)	(100.00)
Financing Provided to State Agencies Under Leases	(30,000)	(54,836)	(45.29)
Total Other Financing Sources/(Uses).....	\$245,193	\$255,303	(3.96)

During fiscal year 2008, the Treasurer of State issued Parks and Recreation Capital Facilities Bond Series II-2007A in the amount of \$30 million, which represents a 45.45 percent decrease in comparison with the previous fiscal year when the Treasurer issued a total of \$55 million in new Chapter 154 lease revenue bonds. The 2008 bond issue provided \$30 million in new lease financing to state agencies for construction projects as authorized by appropriation acts of the Ohio General Assembly, representing a 45.29 percent decrease when compared with \$54.84 million in new lease financing provided during fiscal year 2007. Furthermore, there were no advance bond refundings transacted during fiscal year 2008, which explains the 100 percent decreases in refunding bond proceeds, principal and premium, and in the payment to refunding escrow agent category.

BUDGETARY HIGHLIGHTS

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

(Continued)

STATE OF OHIO
CHAPTER 154 LEASE REVENUE OBLIGATIONS
Management's Discussion and Analysis (Continued)
As of and For the Year Ended June 30, 2008
(UNAUDITED)

ECONOMIC FACTORS

- Generally, interest rates affect the pricing of new bond issues. At its September 16, 2008 meeting, the Federal Open Market Committee (FOMC) at the Federal Reserve decided to keep its target for the federal funds rate at 2 percent.
- The balances of Chapter 154 Lease Revenue Bonds authorized, but unissued, as of June 30, 2008, were as follows:

Bond Type	Bonds Authorized, but Unissued (Dollars in 000s)
Higher Education Facilities Bonds.....	\$ —
Mental Health Facilities Bonds.....	194,915
Parks and Recreation Facilities Bonds.....	75,000
Cultural and Sports Facilities Bonds	113,310
	<u>\$383,225</u>

During fiscal year 2008, the Ohio General Assembly increased the total authorization amount for the issuance of Chapter 154 bonds by \$211 million, from \$7.054 billion, as of June 30, 2007, to \$7.265 billion, as of June 30, 2008.

CONTACTING THE TREASURER OF STATE'S FINANCIAL MANAGEMENT

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

CHAPTER 154
LEASE REVENUE OBLIGATIONS
DEBT SERVICE FUNDS
FINANCIAL STATEMENTS

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Balance Sheet
As of June 30, 2008
(Dollars in 000s)

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks and Recreation Facilities Bond Service	Cultural and Sports Facilities Bond Service	Total Debt Service Funds
ASSETS:					
Cash	\$ 8	\$ 38	\$ 10	\$ 16	\$ 72
Investments	45	16	2	31	94
Receivable from State Agencies:					
Lease Principal	461,715	202,445	121,845	153,190	939,195
Lease Interest	4,652	1,543	814	1,712	8,721
Other Receivable	—	226	—	—	226
TOTAL ASSETS.....	\$466,420	\$204,268	\$122,671	\$154,949	\$948,308
LIABILITIES:					
Matured Bonds					
and Interest Payable	\$ 14	\$ 12	\$ —	\$ —	\$ 26
Deferred Revenue.....	463,067	201,200	122,157	154,902	941,326
TOTAL LIABILITIES.....	463,081	201,212	122,157	154,902	941,352
FUND BALANCES:					
Reserved for Debt Service.....	3,339	3,056	514	47	6,956
TOTAL FUND BALANCES	3,339	3,056	514	47	6,956
TOTAL LIABILITIES AND FUND BALANCES	\$466,420	\$204,268	\$122,671	\$154,949	\$948,308

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

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Debt Service Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

(Dollars in 000s)

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks and Recreation Facilities Bond Service	Cultural and Sports Facilities Bond Service	Total Debt Service Funds
REVENUES:					
Lease Interest from State Agencies	\$29,051	\$10,098	\$ 4,537	\$7,755	\$51,441
Administrative Fees	22	31	24	646	723
Other Interest Income	2	236	—	26	264
TOTAL REVENUES	29,075	10,365	4,561	8,427	52,428
EXPENDITURES:					
Administrative Costs	37	31	25	686	779
Debt Service:					
Principal	173,885	36,595	14,825	28,095	253,400
Interest	29,243	10,130	4,764	7,800	51,937
Bond Issue Costs	—	—	251	—	251
TOTAL EXPENDITURES	203,165	46,756	19,865	36,581	306,367
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(174,090)	(36,391)	(15,304)	(28,154)	(253,939)
OTHER FINANCING SOURCES/(USES):					
Lease Principal Payments from State Agencies	165,160	36,650	14,825	28,095	244,730
Bond Proceeds:					
Principal	—	—	30,000	—	30,000
Premium	—	—	463	—	463
Financing Provided to State Agencies Under Leases:					
Parks and Recreation Facilities	—	—	(30,000)	—	(30,000)
TOTAL OTHER FINANCING SOURCES/(USES)	165,160	36,650	15,288	28,095	245,193
NET CHANGE IN FUND BALANCES..	(8,930)	259	(16)	(59)	(8,746)
FUND BALANCE, JULY 1	12,269	2,797	530	106	15,702
FUND BALANCE, JUNE 30	\$ 3,339	\$ 3,056	\$ 514	\$ 47	\$ 6,956

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

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

B. Fund Accounting and Basis of Presentation

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

D. Budget

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

E. Leases

Receivables are reported for principal and interest due under lease agreements between the Ohio Public Facilities Commission and the state agencies that are required to make the payments. Lease principal and interest receivable not collectible within 60 days are reported as deferred revenue. Additional disclosures on lease-related receivables can be found in NOTE 3.

F. Fund Balance

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Use of Estimates

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

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

NOTE 2 — DEPOSITS AND INVESTMENTS

As of June 30, 2008, the total carrying amount of deposits was \$72; the bank balance of \$72 was entirely insured or collateralized.

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

During fiscal year 2008, investments were placed with STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund.

STAR Ohio is an investment pool managed by the Treasurer of State, which allows Ohio governments to pool funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are held in the State's name and are valued at the pool's share price, which is the price the investment could be sold for on June 30, 2008.

The Fifth Third U.S. Treasury Money Market Fund is a mutual fund. The fund invests all of its assets in high-quality, short-term obligations issued by the U.S. Treasury, which are guaranteed as to principal and interest by the U.S. Government, repurchase

agreements collateralized by U.S. Treasury securities, and shares of money market investment companies that invest exclusively in these securities. Shares in the fund are not purchased in the State's name, but in the nominee name for Bank of New York Mellon, the trustee bank.

Investment balances held, as of June 30, 2008, are as follows:

	Carrying Amount	Market Value
STAR Ohio.....	\$63	\$63
Fifth Third U.S. Treasury Money Market Fund.....	31	31
Total	<u>\$94</u>	<u>\$94</u>

As of June 30, 2008, both the STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund were rated AAAM by Standard and Poor's, and the weighted average maturities of STAR Ohio and the Fifth Third U.S. Treasury Money Market Fund were 53.8 and 35 days, respectively.

As of June 30, 2008, the extent of concentration of investment balances held for each debt service fund and in total by investment is detailed below.

Debt Service Fund	STAR Ohio	Fifth Third U.S. Treasury Money Market Fund	Total Investments
Higher Education.....	100%	—	100%
Mental Health	100%	—	100%
Parks and Recreation.....	100%	—	100%
Cultural Facilities.....	—	100%	100%
Total Debt Service.....	67%	33%	100%

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

As of and For the Year Ended June 30, 2008

NOTE 3 — LEASES

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

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

For the 2008-09 biennium, the 127th General Assembly appropriated the amounts necessary from the General Revenue Fund to meet the payments required under such leases, not exceeding \$339,195 for higher education facilities, \$88,544 for mental health facilities, \$37,906 for parks and recreation facilities, and \$74,060 for cultural and sports facilities. From these appropriated amounts, the following have been paid to the Treasurer during

fiscal year 2008: \$203,169 with respect to higher education, \$46,737 with respect to mental health facilities, \$19,407 with respect to parks and recreational facilities, and \$36,496 with respect to cultural and sports facilities. Such amounts were paid into the Treasurer's respective Bond Service Funds that are established to receive rental and other payments and to make payments of bond service charges (principal and interest).

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

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

As of June 30, 2008, future payments to be received from the state agencies responsible for making the requisite payments under the lease agreements are detailed below by debt service fund.

Schedule of Future Payments
Under Lease Agreements with State Agencies
as of June 30, 2008

Year Ending June 30,	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks & Recreation Facilities Bond Service	Cultural & Sports Facilities Bond Service	Total Debt Service Funds
2009	\$135,929	\$ 36,271	\$ 17,726	\$ 31,582	\$221,508
2010	124,416	37,596	18,975	22,112	203,099
2011	107,852	32,848	15,556	22,106	178,362
2012	83,117	27,440	15,859	21,827	148,243
2013	57,600	25,135	13,548	18,355	114,638
2014-2018	5,771	76,147	60,074	60,130	202,122
2019-2023	—	7,902	6,501	11,160	25,563
	514,685	243,339	148,239	187,272	1,093,535
Amount Representing Interest	(52,970)	(40,894)	(26,394)	(34,082)	(154,340)
Total	\$461,715	\$202,445	\$121,845	\$153,190	\$939,195

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

As of and For the Year Ended June 30, 2008

NOTE 3 — LEASES (Continued)

A summary on the deferred portion of leases receivable by debt service fund, as of June 30, 2008, is presented in the table below.

	Higher Education Facilities Bond Service	Mental Health Facilities Bond Service	Parks & Recreation Facilities Bond Service	Cultural & Sports Facilities Bond Service	Total Debt Service Funds
Lease Principal.....	\$461,715	\$200,665	\$121,845	\$153,190	\$937,415
Lease Interest	1,352	535	312	1,712	3,911
Total Deferred Revenue, as of June 30, 2008.....	\$463,067	\$201,200	\$122,157	\$154,902	\$941,326

NOTE 4 — OTHER RECEIVABLE

The "Other Receivable" balance reported, as of June 30, 2008, represents excess investment earnings derived from escrow accounts established relative to the issuance of the Mental Health Series II-2001A refunding bonds. This amount was due from the refunding bond escrow agent for remittance to the federal government, as a matter of arbitrage compliance, when the claim became due and was

paid in July 2008. No liability for the claim was recorded in the financial statements, as of June 30, 2008, since under the modified accrual basis of accounting, the Mental Health Facilities Bond Service Fund may not recognize an expenditure or a liability in connection with rebatable arbitrage until a payment is actually made or the liability has become due and payable.

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

The Ohio Office of Budget and Management will consolidate the accompanying financial statements of the debt service funds in the financial statements presented in the State of Ohio's Comprehensive Annual Financial Report (CAFR), as of and for the year ended June 30, 2008.

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

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

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

NOTE 6 — SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Treasurer of State issued of the following bonds on August 12, 2008:

Bond Issue	Sources of Funds			Uses of Funds			
	Net Interest Cost	Bond Principal	Net Original Issue Premium	Financing for Mental Health Facilities	Deposit with Refunding Bond Escrow Agent	Deposit to Debt Service Funds	Bond Issue Costs
Mental Health Capital Facilities, Series II-2008A.....	3.815%	\$30,000	\$1,129	\$30,000	\$ —	\$896	\$233
Cultural and Sports Capital Facilities Refunding Bonds, Series 2008A	2.852%	6,880	57	—	6,899	2	36

SUPPLEMENTARY INFORMATION

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Net Assets-Accrual Basis
As of June 30, 2008
(Dollars in 000s)

ASSETS:	
Cash.....	\$ 72
Investments.....	94
Receivable from State Agencies:	
Leases.....	939,195
Unamortized Lease Premium/Discount, Net.....	7,694
Interest	8,721
Other Receivable	226
Unamortized Bond Issue Costs.....	4,056
TOTAL ASSETS.....	960,058
LIABILITIES:	
Matured Bonds and Interest Payable.....	26
Arbitrage Rebate Liability	226
Bond Interest Payable.....	8,860
Bonds Payable, net of deferred refunding amounts, premiums and discount:	
Due in One Year.....	180,553
Due in More Than One Year	770,393
TOTAL LIABILITIES.....	960,058
NET ASSETS:	
Restricted for Debt Service	—
TOTAL NET ASSETS.....	\$ —

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Activities-Accrual Basis
For the Year Ended June 30, 2008
(Dollars in 000s)

	<u>Total</u>	<u>Higher Education Facilities</u>	<u>Mental Health Facilities</u>	<u>Parks and Recreation Facilities</u>	<u>Cultural and Sports Facilities</u>
EXPENSES:					
Administrative	\$ 779	\$ 37	\$ 31	\$ 25	\$ 686
Amortization of Bond Issue Costs	1,022	435	272	121	194
Interest on Debt	46,993	26,479	9,207	4,545	6,762
Arbitrage Rebate	226	—	226	—	—
TOTAL EXPENSES	49,020	26,951	9,736	4,691	7,642
PROGRAM REVENUES:					
Charges for Services ¹	48,663	26,927	9,500	4,691	7,545
Restricted Investment Income	263	2	236	—	25
TOTAL PROGRAM REVENUES	48,926	26,929	9,736	4,691	7,570
NET EXPENSES AND CHANGES IN NET ASSETS	(94)	(22)	—	—	(72)
NET ASSETS, JULY 1	94				
NET ASSETS, JUNE 30	\$ —				

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

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Reconciliation Schedule Between the Balance Sheet
and the Schedule of Net Assets
As of June 30, 2008
(Dollars in 000s)

Fund Balance per Debt Service Funds' Balance Sheet	\$ 6,956
---	-----------------

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

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

Leases Receivable from State Agencies:

Principal.....	937,415
Interest.....	3,911
	941,326

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

Unamortized Lease Premium/Discount, Net.....	7,694
Unamortized Bond Issue Costs	4,056
	11,750

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

Bonds Payable	(950,946)
Bond Interest Payable	(8,860)
Arbitrage Rebate Liability	(226)
	(960,032)

Net Assets per Schedule of Net Assets	\$ —
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See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Reconciliation Schedule Between
the Statement of Revenues, Expenditures and Changes in Fund Balances
and the Schedule of Activities
For the Fiscal Year Ended June 30, 2008

(Dollars in 000s)

Net Change in Fund Balance per Debt Service Funds'	
Statement of Revenues, Expenditures and Changes in Fund Balances.....	\$ (8,746)

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

Lease interest revenues and other financing sources from lease principal receipts are deferred in the debt service funds. During fiscal year 2008, deferred revenue changed by the following amounts.

Lease Principal.....	(214,730)
Lease Interest.....	(1,147)
	(215,877)

Increases and decreases in unamortized lease premiums/discounts are not reported in the debt service funds.....	(2,139)
---	---------

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

Bonds.....	(30,000)
Premiums.....	(463)
	(30,463)

Repayments of long-term debt are reported as expenditures in the debt service funds, but the repayments reduce long-term liabilities in the Schedule of Net Assets. During fiscal year 2008, these amounts consisted of:

Scheduled Debt Principal Retirements.....	253,400
---	---------

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

Increase in Arbitrage Rebate Liability.....	(226)
Increase/(Decrease) in Unamortized Bond Issue Costs.....	(771)
Decrease in Bond Interest Payable.....	1,356
Amortization of Bond Premiums/Accretion of Bond Discounts, Net.....	8,751
Amortization of Deferred Refunding Amount.....	(5,379)
	3,731

Change in Net Assets per Schedule of Activities.....	\$ (94)
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See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Future Payments
Under Lease Agreements with State Agencies
As of June 30, 2008

(Dollars in 000s)

Year Ending June 30,	Higher Education Facilities	Mental Health Facilities	Parks and Recreation Facilities	Cultural and Sports Facilities	Total
2009.....	\$135,929	\$ 36,271	\$ 17,726	\$31,582	\$221,508
2010.....	124,416	37,596	18,975	22,112	203,099
2011.....	107,852	32,848	15,556	22,106	178,362
2012.....	83,117	27,440	15,859	21,827	148,243
2013.....	57,600	25,135	13,548	18,355	114,638
2014-2018.....	5,771	76,147	60,074	60,130	202,122
2019-2023.....	—	7,902	6,501	11,160	25,563
	514,685	243,339	148,239	187,272	1,093,535
Amount Representing Interest.....	(52,970)	(40,894)	(26,394)	(34,082)	(154,340)
	461,715	202,445	121,845	153,190	939,195
Premium/(Discount), Net.	2,937	2,201	173	2,383	7,694
Leases Receivable, as of June 30, 2008	\$464,652	\$204,646	\$122,018	\$155,573	\$946,889

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2008
(Dollars in 000s)

Outstanding Chapter 154 Lease Rental Obligations, as of June 30, 2008, are in the form of fully registered bonds that mature in various amounts and at various dates and bear interest payable semi-annually at various interest rates. The bonds mature after specified dates and are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity. The redemption price varies from 100 percent to 102 percent, dependent upon the terms of the particular series of the bonds and the redemption date.

As of June 30, 2008, the Chapter 154 Lease Obligations had the following credit ratings assigned by the major bond rating agencies:

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

Through June 30, 2008, the Ohio General Assembly has authorized issuance of Chapter 154 Lease Revenue Obligations, including bonds and bond anticipation notes for capital facilities, in the following amounts.

Type of Bond	Amount
Higher Education Facilities*	\$4,817,590
Mental Health Facilities.....	1,517,000
Parks and Recreation Facilities.....	418,000
Cultural and Sports Facilities	512,000
Total Authorization	\$7,264,590

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

Details on bonds issued through June 30, 2008 are displayed in the following tables. Bond amounts issued in accordance with the above authorizations amounts are listed under the "Original Issues at Par" column. Bond issue authorization limits do not apply to advance refunding issues. The final maturity dates and average effective interest rates reported on the following tables represent data valid at the time of the original issue; this data has not been adjusted for the effects of any advance refunding issues that occurred subsequent to the original bond series issue.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2008 (Continued)
(Dollars in 000s)

Higher Education Facilities Special Obligation Bonds						
Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2008
1970A	\$ 40,000	\$ —	08/01/70	06/01/92	6.167%	\$ —
1971A	50,000	—	05/01/71	05/01/94	5.095%	—
1972A	60,000	—	03/01/72	12/01/94	4.973%	—
1972B	75,000	—	08/01/72	11/01/93	5.274%	—
1973A	40,000	—	06/01/73	12/01/93	5.079%	—
1974A	45,000	—	04/01/74	11/01/96	5.560%	—
1974B	40,000	—	12/01/74	12/01/96	6.297%	—
1975A	30,000	—	06/01/75	06/01/90	6.527%	—
1976A	100,000	—	03/01/76	05/01/93	6.898%	—
1976B	70,000	—	10/01/76	11/01/96	5.882%	—
1977A	50,000	—	09/01/77	12/01/95	5.151%	—
1978A	60,000	—	03/01/78	12/01/95	5.305%	—
1978B	100,000	—	08/01/78	05/01/94	6.135%	—
1979A	65,000	—	06/01/79	06/01/94	5.922%	—
1980A	85,000	—	08/01/80	05/01/91	9.089%	—
1981A	45,000	—	03/01/81	06/01/92	10.017%	—
1982A	75,000	—	07/01/82	06/01/92	13.112%	—
1983A	90,000	—	04/01/83	06/01/93	9.001%	—
1984A	90,000	—	01/01/84	12/01/94	8.730%	—
1984B	115,000	—	09/01/84	11/01/95	9.714%	—
1985A	110,000	—	06/01/85	06/01/96	8.219%	—
1986A	110,000	—	02/01/86	11/01/96	8.151%	—
1986B	120,000	—	08/01/86	05/01/97	7.113%	—
1987A	120,000	—	04/01/87	05/01/97	6.427%	—
1987B	—	130,000	07/01/87	06/01/97	7.149%	—
1988A	120,000	—	01/01/88	11/01/97	6.986%	—
1988B	115,000	—	09/01/88	06/01/97	7.143%	—
1989A	115,000	—	04/01/89	05/01/97	7.410%	—
1989B	115,000	—	12/01/89	12/01/97	6.705%	—
II-1990A	115,000	—	08/01/90	05/01/98	6.864%	—
II-1991A	115,000	—	04/01/91	05/01/98	6.449%	—
II-1991B	115,000	—	10/01/91	12/01/06	6.057%	—
II-1992A	114,450	137,405	02/01/92	12/01/07	5.649%	—
II-1992B	115,000	—	07/01/92	11/01/07	5.559%	—
II-1992C	85,000	51,110	10/01/92	12/01/07	5.431%	—
II-1993A	121,280	84,520	06/01/93	06/01/08	4.867%	—
II-1993B	120,000	—	12/01/93	12/01/08	4.854%	—
II-1994A	120,850	132,150	03/01/94	12/01/08	4.484%	—
II-1994B	120,000	—	11/01/94	11/01/09	5.982%	—
II-1995A	139,765	26,635	04/01/95	05/01/10	5.396%	—
II-1995B	140,000	—	10/01/95	11/01/10	5.121%	—
II-1996A	150,000	—	02/01/96	11/01/10	5.627%	—
II-1996B	150,000	—	10/01/96	11/01/11	5.143%	—
II-1997A	149,885	132,415	04/01/97	05/01/12	5.066%	—
II-1997B	150,000	86,500	10/01/97	11/01/12	4.746%	—
II-1998A	146,360	107,840	03/01/98	12/01/12	4.522%	—
II-1998B	150,000	—	07/01/98	06/01/13	4.693%	—
II-1998C	150,000	—	12/01/98	06/01/13	4.414%	—
II-1999A	100,000	—	08/01/99	11/01/13	4.853%	6,100
II-2001A	—	394,495	04/01/01	12/01/11	4.251%	131,450
II-2002A	—	253,275	08/01/02	12/01/12	3.544%	147,900
II-2003A	—	36,065	02/01/03	06/01/09	3.225%	16,015
II-2004A	—	173,975	10/05/04	08/01/13	3.498%	160,250
Total	\$4,817,590	\$1,746,385				\$461,715

See Independent Auditors' Report.

(Continued)

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2008 (Continued)
(Dollars in 000s)

Mental Health Facilities Special Obligation Bonds						
Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2008
1970A	\$ 25,000	\$ —	08/01/70	12/01/92	6.201%	\$ —
1971A	50,000	—	08/01/71	06/01/91	6.056%	—
1975A	50,000	—	04/01/75	12/01/93	6.853%	—
1976A	45,000	—	04/01/76	12/01/93	6.360%	—
1976B	50,000	—	12/01/76	12/01/93	6.023%	—
1977A	50,000	—	12/01/77	12/01/96	5.231%	—
1978A	40,000	—	12/01/78	12/01/93	6.107%	—
1979A	65,000	—	09/01/79	12/01/93	6.546%	—
1980A	40,000	—	06/01/80	06/01/92	6.938%	—
1982A	185,000	—	10/01/82	12/01/93	11.282%	—
1984A	50,000	—	12/01/84	12/01/95	9.521%	—
1987A	24,200	71,700	07/01/87	12/01/97	7.003%	—
1988A	40,000	—	09/01/88	06/01/98	7.258%	—
1989A	40,000	—	11/01/89	12/01/97	6.857%	—
II-1991A	40,000	—	04/01/91	12/01/05	6.435%	—
II-1992A	39,940	22,290	02/01/92	12/01/06	5.856%	—
II-1993A	40,000	—	02/01/93	12/01/07	5.186%	—
II-1993B	40,395	137,940	11/01/93	06/01/08	4.515%	—
II-1994A	40,000	—	11/01/94	12/01/09	6.033%	—
II-1996A	40,000	—	02/01/96	12/01/10	4.672%	—
II-1996B	40,000	—	10/01/96	06/01/11	5.200%	—
II-1997A	40,000	—	12/01/97	12/01/12	4.807%	—
II-1998A	39,550	21,250	07/01/98	06/01/13	4.634%	—
II-2000A	30,000	—	06/01/00	06/01/15	5.286%	3,890
II-2001A	—	56,970	04/01/01	12/01/10	4.112%	16,160
II-2001B	30,000	—	08/01/01	06/01/16	4.540%	8,390
II-2002A	30,000	—	08/01/02	06/01/17	4.194%	8,605
II-2002B	—	38,065	08/01/02	12/01/10	3.112%	9,625
II-2003A	—	8,215	02/01/03	06/01/11	3.446%	5,105
II-2003B	30,000	—	06/01/03	06/01/18	3.536%	22,780
II-2004A	—	30,035	10/05/04	08/01/12	3.536%	29,335
II-2004B	25,000	—	12/29/04	06/01/19	3.536%	19,015
II-2005A	30,000	—	08/31/05	08/01/19	4.366%	26,505
II-2006A	30,000	—	08/10/06	06/01/16	4.094%	26,260
II-2006B	—	26,775	12/14/06	12/01/16	4.752%	26,775
	1,319,085	413,240				202,445
Bond Anticipation Notes	3,000	—				—
Total	\$1,322,085	\$413,240				\$202,445

See Independent Auditors' Report.

(Continued)

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Credit Ratings and Bonds Authorized, Issued and Outstanding
As of June 30, 2008 (Continued)
(Dollars in 000s)

Parks and Recreation Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2008
1972A.....	\$ 6,000	—	06/01/72	06/01/94	5.042%	\$ —
1978A.....	38,000	—	06/01/78	12/01/95	5.856%	—
1982A.....	20,000	—	12/01/82	12/01/92	10.061%	—
1986A.....	16,150	—	05/01/86	12/01/97	6.783%	—
1989A.....	36,000	—	06/01/89	12/01/97	6.658%	—
II-1992A	8,100	8,400	10/01/92	12/01/07	5.325%	—
II-1993A	20,000	—	03/01/93	12/01/07	4.739%	—
II-1994A	20,000	—	09/01/94	06/01/09	5.414%	—
II-1995A	20,000	11,100	10/01/95	06/01/10	5.097%	—
II-1997A	10,150	15,850	12/01/97	12/01/12	4.649%	—
II-2000A	20,000	—	02/01/00	12/01/14	5.472%	2,900
II-2001A	25,000	—	02/01/01	12/01/15	4.576%	6,975
II-2001B	—	20,935	04/01/01	12/01/09	4.019%	5,290
II-2002A	25,000	—	05/01/02	06/01/17	4.459%	6,585
II-2002B	—	9,675	08/01/02	12/01/07	2.524%	—
II-2003A	—	6,425	02/01/03	06/01/12	3.575%	5,235
II-2004A	25,000	—	03/11/04	12/01/18	4.107%	18,875
II-2004B	—	11,740	10/05/04	08/01/14	4.107%	11,315
II-2005A	23,100	—	03/09/05	02/01/20	4.107%	19,330
II-2006A	—	15,410	12/14/06	12/01/16	4.318%	15,340
II-2007A	30,000	—	11/13/07	12/01/17	3.816%	30,000
	342,500	99,535				121,845
Bond Anticipation Notes.....	500	—				—
Total	\$343,000	\$99,535				\$121,845

Cultural and Sports Facilities Special Obligation Bonds

Series	Original Issues at Par	Advance Refunding Issues at Par	Issue Date	Final Maturity Date	Average Effective Interest Rate	Outstanding Balance at Par, as of June 30, 2008
1992A.....	\$ 5,000	\$ —	04/09/92	04/08/93	3.500%	\$ —
1993A.....	10,000	—	06/01/93	10/01/07	4.477%	—
1993A.....	35,000	—	06/01/93	10/01/07	4.477%	—
1996A.....	10,000	—	04/01/96	10/01/05	4.370%	—
1997A.....	40,000	—	01/15/97	10/01/06	4.965%	—
1997A.....	37,000	—	01/15/97	10/01/11	4.745%	12,675
1999A.....	75,000	—	03/15/99	10/01/08	5.000%	9,295
1999A.....	39,000	—	03/15/99	10/01/13	4.400%	8,630
2001A.....	29,000	—	02/01/01	04/01/16	4.817%	8,095
2001A.....	23,690	—	02/01/01	04/01/16	4.423%	6,570
2003A.....	20,000	—	03/14/03	04/01/18	3.528%	14,385
2004A.....	20,000	—	10/21/04	10/01/14	3.570%	14,675
2005A.....	30,000	—	08/31/05	04/01/20	4.608%	27,250
2006A.....	25,000	—	12/14/06	04/01/20	4.446%	23,470
2006B.....	—	28,295	12/14/06	10/01/15	4.827%	28,145
Total.....	\$398,690	\$28,295				\$153,190

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Changes in Bonds Payable Balance
For the Year Ended June 30, 2008

(Dollars in 000s)

	Higher Education Facilities Bonds	Mental Health Facilities Bonds	Parks and Recreation Facilities Bonds	Cultural and Sports Facilities Bonds	Total
Outstanding Balance, July 1, 2007.....	\$641,419	\$243,262	\$107,208	\$185,366	\$1,177,255
Additions:					
New Issuances:					
Bond Principal	—	—	30,000	—	30,000
Bond Premium	—	—	463	—	463
Accretion of Discount	—	—	7	3	10
Amortization of					
Deferred Refunding Amount.....	4,114	755	315	195	5,379
Total Additions	4,114	755	30,785	198	35,852
Deductions:					
Bond Principal Repayments.....	173,885	36,595	14,825	28,095	253,400
Amortization of Premium	5,946	1,521	368	926	8,761
Total Deductions	179,831	38,116	15,193	29,021	262,161
Outstanding Balance, June 30, 2008	\$465,702	\$205,901	\$122,800	\$156,543	\$950,946
Amount Due in One Year	\$114,832	\$ 27,688	\$ 12,980	\$ 25,053	\$180,553
Amount Due in More Than One Year....	350,870	178,213	109,820	131,490	770,393
Outstanding Balance, June 30, 2008	\$465,702	\$205,901	\$122,800	\$156,543	\$950,946

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Future Debt Service Funding Requirements
As of June 30, 2008
(Dollars in 000s)

Year Ending June 30,	Higher Education Facilities			Mental Health Facilities			Parks & Recreation Facilities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009.....	\$114,615	\$21,352	\$135,967	\$ 27,635	\$ 8,679	\$ 36,314	\$ 12,965	\$ 4,773	\$ 17,738
2010.....	109,370	15,046	124,416	30,155	7,441	37,596	14,700	4,275	18,975
2011.....	98,210	9,642	107,852	26,630	6,218	32,848	11,770	3,786	15,556
2012.....	77,990	5,127	83,117	22,410	5,030	27,440	12,540	3,319	15,859
2013.....	55,900	1,700	57,600	21,045	4,089	25,134	10,745	2,803	13,548
2014-2018.....	5,630	141	5,771	67,015	9,132	76,147	52,995	7,079	60,074
2019-2023.....	—	—	—	7,555	347	7,902	6,130	371	6,501
	461,715	53,008	514,723	202,445	40,936	243,381	121,845	26,406	148,251
Premium/ Discount, Net.....	13,477	—	13,477	5,891	—	5,891	2,488	—	2,488
Deferred Refunding Amount.....	(9,490)	—	(9,490)	(2,435)	—	(2,435)	(1,533)	—	(1,533)
Total	\$465,702	\$53,008	\$518,710	\$205,901	\$40,936	\$246,837	\$122,800	\$26,406	\$149,206

Year Ending June 30,	Cultural and Sports Facilities			Total-Chapter 154 Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2009.....	\$ 24,980	\$ 6,650	\$ 31,630	\$180,195	\$ 41,454	\$ 221,649
2010.....	16,365	5,747	22,112	170,590	32,509	203,099
2011.....	17,110	4,996	22,106	153,720	24,642	178,362
2012.....	17,600	4,227	21,827	130,540	17,703	148,243
2013.....	14,955	3,400	18,355	102,645	11,992	114,637
2014-2018.....	51,805	8,325	60,130	177,445	24,677	202,122
2019-2023.....	10,375	785	11,160	24,060	1,503	25,563
	153,190	34,130	187,320	939,195	154,480	1,093,675
Premium/ Discount, Net.....	4,424	—	4,424	26,280	—	26,280
Deferred Refunding Amount.....	(1,071)	—	(1,071)	(14,529)	—	(14,529)
Total	\$156,543	\$34,130	\$190,673	\$950,946	\$154,480	\$1,105,426

See Independent Auditors' Report.

STATE OF OHIO
Chapter 154 Lease Revenue Obligations
Schedule of Advance Refundings Issues and Prior Years' Defeasances
As of and For the Year Ended June 30, 2008
(Dollars in 000s)

Advance Refunding Issues

During fiscal year 2008, no advance refunding issues were transacted whereby the Treasurer defeased lease rental bond issues *in substance* (i.e., the net proceeds of refunding bonds, after payment of underwriting fees and bond issue costs, had been deposited with escrow agents to provide for all future principal and interest payments on the old bonds).

Prior Years' Defeasances

In prior years, the Treasurer defeased certain other Chapter 154 Lease Revenue Obligations by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the various trust accounts' assets and liabilities for the defeased bonds are not included in the financial statements of the Chapter 154 Lease Revenue Obligations. As of June 30, 2008, the following table details prior years' refunded bonds, which are considered to be defeased and no longer outstanding.

Refunded Issue	Principal Yet to be Paid, as of June 30, 2008	Scheduled Redemption Date
Higher Education:		
Series II-1999A	\$ 34,600	November 1, 2008
Mental Health:		
Series II-2000A	11,780	June 1, 2010
Series II-2001B	9,930	December 1, 2016
Series II-2002A	11,445	June 1, 2017
	<u>33,155</u>	
Parks & Recreation:		
Series II-1998A	8,500	December 1, 2009
Series II-2001A	8,325	December 1, 2010
Series II-2002A	10,205	June 1, 2017
	<u>27,030</u>	
Cultural & Sports:		
Sports Series-1999A..	10,030	April 1, 2009
Art Series-2001A.....	10,025	April 1, 2011
Sports Series-2001A..	8,005	April 1, 2011
	<u>28,060</u>	
Total.....	<u>\$122,845</u>	

See Independent Auditors' Report.



INSIGHT ■ INNOVATION ■ EXPERIENCE

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

Treasurer of State of Ohio
Columbus, Ohio

We have audited the financial statements of the Debt Service Funds as held in the name of the Treasurer of the State of Ohio (the Funds) of the Higher Education Capital Facilities, Mental Health Capital Facilities, Parks and Recreation Capital Facilities, and Cultural and Sports Capital Facilities Lease Revenue Bonds Governed by the Ohio Revised Code Chapter 154 as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. The financial statements present only the State Lease Revenue Bonds and do not purport to, and do not, present fairly the financial position of the Treasurer of the State of Ohio, which is part of the reporting entity of the State of Ohio. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the 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.

Schneider, Downs & Company, Inc.

Columbus, Ohio
September 26, 2008