

**LEASE REVENUE BONDS  
GOVERNED BY OHIO REVISED CODE CHAPTER 154**

Financial Statements

For the Year Ended June 30, 2002

with

Independent Auditors' Report





**Auditor of State  
Betty Montgomery**

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Treasurer, State of Ohio and  
the Members of the Ohio Public Facilities Commission  
Columbus, Ohio

We have reviewed the Independent Auditor's Report of the Treasurer of State Lease Revenue Bonds, Franklin County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2001 through June 30, 2002. 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.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

February 11, 2003

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**LEASE REVENUE BONDS  
GOVERNED BY OHIO REVISED CODE CHAPTER 154**

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Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**Independent Auditors' Report**

Treasurer, State of Ohio and  
The Members of the Ohio Public Facilities Commission  
Columbus, Ohio

We have audited the accompanying financial statements of the Debt Service Funds (referred to hereafter as the Funds) of the Higher Education Capital Facilities, Mental Health Capital Facilities, and Parks and Recreation Capital Facilities Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 (the Obligations), as of and for the year ended June 30, 2002, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Treasurer of State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Funds of the State of Ohio as of June 30, 2002, 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.

As described in Note 3 to the basic financial statements, the Funds adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38: *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. This results in a change in the format and the content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2003 on our consideration of the Funds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

*Clark, Schaefer, Hackett & Co*

Columbus, Ohio  
January 9, 2003



**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

As management of the Treasurer of the State of Ohio, we offer readers of the financial statements of the Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 ("Chapter 154 Bonds") this narrative overview and analysis of the Chapter 154 Bonds' financial activities for the fiscal year ended June 30, 2002.

**FINANCIAL HIGHLIGHTS**

- The assets of the Chapter 154 Bonds exceeded its liabilities at the close of the most recent fiscal year by \$2,331,872 (net assets). All net assets are restricted for debt service
- The Chapter 154 Bond's net assets decreased by \$1,713,585 or 42.36%.
- As of the close of the current fiscal year, the Chapter 154 Bond's governmental funds reported combined ending fund balances of \$3,623,690, a decrease of \$421,768 in comparison with the prior year. The entire ending fund balance is reserved.
- Total debt decreased by \$204 million (9.7%). The key factor in the decrease was that \$260 million in principal was paid, while only \$56 million in new bonds were issued during the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**1. Government-wide financial statements**

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

The statement of net assets presents information on all of the Chapter 154 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 Chapter 154 Bonds is improving or deteriorating.

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

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

**2. Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Chapter 154 Bonds, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Chapter 154 Bonds are considered to be governmental funds. The Chapter 154 Bonds do not include proprietary funds.

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

*Governmental Funds* - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

**3. Notes to the financial statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Chapter 154 Bonds, assets exceeded liabilities by \$2,331,872 at the close of the most recent fiscal year.

The largest portion of the Chapter 154 Bonds' net assets (\$1,882,137) reflects the non-current portion of research investment loans receivable for loans made to various State universities. The remaining net assets are restricted for either debt service payments or payment of various administrative costs associated with the bonds. A comparative analysis of net assets as of June 30, 2002 versus June 30, 2001 follows:

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

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

**Net Asset Comparative Analysis**

	<u>2002</u>	<u>2001</u>	% Change
Current Assets	\$ 10,094,660	\$ 12,918,343	-21.86%
Other Assets	<u>1,910,252,451</u>	<u>2,115,600,897</u>	-9.71%
Total Assets	1,920,347,111	2,128,519,240	
Current Liabilities	253,282,459	270,003,781	-6.19%
Long-Term Liabilities	<u>1,664,732,780</u>	<u>1,854,470,000</u>	-10.23%
Total Liabilities	<u>1,918,015,239</u>	<u>2,124,473,781</u>	
Net Assets	<u>\$ 2,331,872</u>	<u>\$ 4,045,459</u>	-42.36%

Net assets decreased by \$1,713,585 during the current fiscal year. The rate of repayment on existing debt issues exceeded the rate of new debt issued, which caused a majority of the decrease in net assets.

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

Since this is the first year the Treasurer has prepared financial statements in accordance with GASB Statement No. 34, government-wide revenue and expense comparisons to the fiscal year ended June 30, 2001 are not available. In future years, a comparative analysis of government-wide revenue and expense data will be presented.

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

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

As of the end of the current fiscal year, the Chapter 154 Bonds' governmental funds reported combined ending fund balances of \$3,623,690, a decrease of \$421,768 in comparison with the prior year. Approximately 52% of the total fund balance (\$1,882,137) is comprised of a reserve for the noncurrent portion of research investment loans receivable. In addition, approximately 40% of the fund balance is restricted for future debt service payments, and the remainder is reserved for assets in excess of debt service requirements.

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

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)**

**Governmental Fund Revenue  
*Comparative Analysis***

<u>Revenue Source</u>	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Investment Income	\$31,047	\$120,926	-74.33%
Lease Payments from State Agencies	358,629,869	390,994,498	-8.28%
Proceeds from Bond Sales	1,110,075	105,216	955.04%
Proceeds of Refunding Bonds	0	504,786,546	-100.00%
	<u>\$359,770,991</u>	<u>\$896,007,186</u>	

As the chart above indicates, most (99.7%) of governmental fund revenues are comprised of lease payments from state agencies for the year ended June 30, 2002. Total lease payments from State Agencies decreased for fiscal year 2002 due to the corresponding decrease in outstanding debt and debt service requirements for the year.

Proceeds from bond sales increased during the fiscal year due mainly because the premium from the sale of Parks & Recreation bonds in 2002 was deposited into the bond service fund; whereas the premium from bond sales in 2001 went directly to the Treasurer's bond improvement fund, which is not included in these financial statements. No refunding bonds were issued in 2002, which explains the decrease in proceeds of refunding bonds.

**Governmental Fund Expenditures  
*Comparative Analysis***

<u>Expenditure</u>	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Administrative Costs	\$700,539	\$699,369	0.17%
Debt Service Payments	359,492,220	398,367,151	-9.76%
Other	0	74,760	-100.00%
Payments to Refunded Bond Escrow Agents	0	499,750,271	-100.00%
	<u>\$360,192,759</u>	<u>\$898,891,551</u>	

As the chart above indicates, most (99.8%) of the Chapter 154 Bond expenditures are for debt service payments for the year ended June 30, 2002. Debt service payments decreased for fiscal year 2002 due to the decrease in outstanding bonds payable. No refunding bonds were issued in 2002, which explains the decrease in payments to refunded bond escrow agents.

**BUDGETARY HIGHLIGHTS**

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

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2002**

**DEBT**

At June 30, 2002, there was a total of \$1,908,862,496 outstanding bonds payable. The Treasurer paid \$260,250,000 of principal on bonds outstanding during the fiscal year, while new bonds were issued totaling \$55,000,000. Total debt decreased by \$205,250,000 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, \$1,281,000,000 for mental health, and \$291,000,000 for parks and recreation. There is currently no General Assembly authorization for additional lease-rental bonds for higher education projects; however, bonds may be issued to refund outstanding bonds.

Detailed information regarding long-term debt is included in the Note 5 to the basic financial statements.

**ECONOMIC FACTORS**

- On August 8, 2002, the Treasurer sold \$30,000,000 of Mental Health Capital Facilities Bonds, Series II-2002A. Thus, there remains \$73,915,000 in authorized by the General Assembly, but not yet issued Mental Health Capital Facilities Bonds.
- There remains \$26,100,000 in authorized by the General Assembly, but not yet issued Parks & Recreation Capital Facilities Bonds.
- On September 10, 2002, to take advantage of lower interest costs, the Treasurer issued bonds totaling \$301,015,000 for the sole purpose of refunding outstanding Higher Education, Mental Health, and Parks & Recreation Capital Facilities Bonds.
- As of June 30, 2002, the obligations issued by the Treasurer were rated Aa2 by Moody's and AA by both Standard & Poor's and Fitch.

**CONTACTING THE TREASURER'S FINANCIAL MANAGEMENT**

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

STATE OF OHIO  
 Chapter 154 Bonds  
 Statement of Net Assets  
 As of June 30, 2002

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash.....	\$ 2,233
Investments.....	1,907,367
Interest Receivable.....	8,185,060
Loans Receivable from State Universities.....	1,882,137
Leases Receivable from State Agencies.....	1,907,780,000
Other Assets-Unamortized Bond Issue Costs.....	590,314
<b>TOTAL ASSETS.....</b>	<b>1,920,347,111</b>
<b>LIABILITIES:</b>	
Accounts Payable.....	103,747
Accrued Interest on Bonds.....	9,048,996
Special Obligation Bonds Payable:	
Due in One Year.....	244,129,716
Due in More Than One Year.....	1,664,732,780
<b>TOTAL LIABILITIES.....</b>	<b>1,918,015,239</b>
<b>NET ASSETS:</b>	
Restricted for Debt Service.....	2,331,872
<b>TOTAL NET ASSETS.....</b>	<b>\$ 2,331,872</b>

STATE OF OHIO  
Chapter 154 Bonds  
Statement of Activities  
For the Year Ended June 30, 2002

	<u>TOTAL</u>	<u>HIGHER EDUCATION FACILITIES</u>	<u>MENTAL HEALTH FACILITIES</u>	<u>PARKS AND RECREATION FACILITIES</u>
<b>EXPENSES:</b>				
Administrative.....	\$ 82,646	\$ 12,206	\$ 28,197	\$ 42,243
Amortization of Bond Issue Costs.....	27,579	—	27,579	—
Interest on Debt.....	<u>96,840,700</u>	<u>78,077,533</u>	<u>14,009,072</u>	<u>4,754,095</u>
<b>TOTAL EXPENSES.....</b>	<u>96,950,925</u>	<u>78,089,739</u>	<u>14,064,848</u>	<u>4,796,338</u>
<b>PROGRAM REVENUES:</b>				
Charges for Services (1).....	95,206,293	76,288,585	14,098,459	4,819,249
Restricted Investment Income.....	<u>31,047</u>	<u>20,420</u>	<u>8,452</u>	<u>2,175</u>
<b>TOTAL PROGRAM REVENUES.....</b>	<u>95,237,340</u>	<u>76,309,005</u>	<u>14,106,911</u>	<u>4,821,424</u>
<b>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS.....</b>	<u>(1,713,585)</u>	<u>(1,780,734)</u>	<u>42,063</u>	<u>25,086</u>
<b>NET ASSETS, JULY 1.....</b>	<u>4,045,457</u>			
<b>NET ASSETS, JUNE 30.....</b>	<u>\$ 2,331,872</u>			

<sup>(1)</sup> Includes interest charges from leases receivable (due from state agencies).

STATE OF OHIO  
Chapter 154 Bonds  
Balance Sheet  
For the Year Ended June 30, 2002

	HIGHER EDUCATION FACILITIES	MENTAL HEALTH FACILITIES	PARKS AND RECREATION FACILITIES	TOTAL DEBT SERVICE
<b>ASSETS:</b>				
Cash.....	\$ 617	\$ 616	\$ 1,000	\$ 2,233
Investments.....	1,006,174	178,658	722,535	1,907,367
Loans Receivable from State Universities.....	1,882,137	—	—	1,882,137
<b>TOTAL ASSETS.....</b>	<b>2,888,928</b>	<b>179,274</b>	<b>723,535</b>	<b>3,791,737</b>
<b>LIABILITIES:</b>				
Accrued Interest on Bonds.....	—	—	64,300	64,300
Accrued Liabilities.....	—	10,747	93,000	103,747
<b>TOTAL LIABILITIES.....</b>	<b>—</b>	<b>10,747</b>	<b>157,300</b>	<b>168,047</b>
<b>FUND BALANCES:</b>				
Reserved for Debt Service.....	858,626	41,485	558,750	1,458,861
Reserved for Future Debt Service Requirements.....	148,165	127,042	7,485	282,692
Reserved for Noncurrent Portion of Loans Receivable.....	1,882,137	—	—	1,882,137
<b>TOTAL FUND BALANCES.....</b>	<b>2,888,928</b>	<b>168,527</b>	<b>566,235</b>	<b>3,623,690</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2,888,928</b>	<b>\$ 179,274</b>	<b>\$ 723,535</b>	

**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	1,907,780,000
Interest receivable	8,185,060

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	(8,984,696)
Special Obligation Bonds Payable	(1,908,862,496)

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	590,314
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**Net Assets of Governmental Activities**

**\$ 2,331,872**



STATE OF OHIO  
Chapter 154 Bonds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2002

	<u>HIGHER EDUCATION FACILITIES</u>	<u>MENTAL HEALTH FACILITIES</u>	<u>PARKS AND RECREATION FACILITIES</u>	<u>TOTAL DEBT SERVICE</u>
<b>REVENUES:</b>				
Lease Payments from State Agencies.....	\$ 294,057,487	\$ 49,162,527	\$ 15,409,855	\$ 358,629,869
Investment Income.....	<u>20,420</u>	<u>8,452</u>	<u>2,175</u>	<u>31,047</u>
<b>TOTAL REVENUES.....</b>	<u>294,077,907</u>	<u>49,170,979</u>	<u>15,412,030</u>	<u>358,660,916</u>
<b>EXPENDITURES:</b>				
Administrative Costs.....	12,206	351,240	337,093	700,539
Debt Service:				
Principal.....	214,700,000	34,975,000	10,575,000	260,250,000
Interest.....	<u>80,346,800</u>	<u>14,125,719</u>	<u>4,769,701</u>	<u>99,242,220</u>
<b>TOTAL EXPENDITURES.....</b>	<u>295,059,006</u>	<u>49,451,959</u>	<u>15,681,794</u>	<u>360,192,759</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bond Premiums.....	—	323,043	787,032	1,110,075
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<u>—</u>	<u>323,043</u>	<u>787,032</u>	<u>1,110,075</u>
<b>EXCESS (DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES(USES) OVER(UNDER) EXPENDITURES.....</b>				
	(981,099)	42,063	517,268	(421,768)
<b>FUND BALANCE, JULY 1.....</b>	<u>3,870,027</u>	<u>126,464</u>	<u>48,967</u>	
<b>FUND BALANCE, JUNE 30.....</b>	<u>\$ 2,888,928</u>	<u>\$ 168,527</u>	<u>\$ 566,235</u>	

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

The principal portion of lease payments from state agencies provide current financial resources to the debt service fund, but reduces leases receivable in the Statement of Net Assets.	\$ (263,423,576)
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 is an expenditure in the debt service fund, but the repayment reduces long-term liabilities in the Statement of Net Assets. This the amount by which proceeds exceeded repayments.	259,139,925
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	2,401,520
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	617,893 <u>(27,579)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ (1,713,585)</u>

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY**

In 1969, the General Assembly of the State of Ohio (the General Assembly) enacted Chapter 154 of the Ohio Revised Code pursuant to the power granted to the General Assembly by Section 2i of Article VIII of the Ohio Constitution to authorize for certain stated purposes, the issuance of revenue and other obligations, the owners and holders of which are not given the right to have excises or taxes levied by the General Assembly for payment of principal or interest. The Ohio Public Facilities Commission (the Commission) was created at that time and was initially authorized to issue obligations of the State of Ohio to pay costs of capital facilities for (a) state supported and state assisted institutions of higher education, (b) mental hygiene and retardation, and (c) parks and recreation (the Obligations). By Section 154.23 of the Revised Code, enacted in 1980, the Commission was also authorized to issue obligations to pay costs of capital facilities for housing of branches and agencies of state government. The General Assembly, however, never granted specific dollar authorization to the Commission to issue obligations for this additional purpose, and, in 2000, Section 154.23 of the Revised Code was repealed. The General Assembly enacted Am. Sub. H.B. 640, effective September 14, 2000, which reassigned to the Treasurer of the State of Ohio (the Treasurer) the issuing authority and functions of the Commission with respect to the Obligations. The Treasurer succeeded the Commission as issuer with all responsibilities and obligations under the bond proceedings relating to the previously issued Obligations. The Treasurer can issue Obligations only in such amounts as are previously authorized by the General Assembly and the proceeds are applied only to capital improvements designated by or pursuant to action by the General Assembly. The financing arrangements for such obligations for capital improvements so designated involve separate bond proceedings and lease arrangements between the Commission (its only remaining responsibility relating to the Obligations) and the Ohio Board of Regents for higher education facilities, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities for mental health facilities, and the Department of Natural Resources for parks and recreation facilities. All such leases are "net" leases. Accordingly, only the Lease Revenue Bonds governed by Ohio Revised Code Chapter 154 are included in these financial statements.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lease Revenue Bonds Governed by Ohio Revised Code Chapter 154 (Chapter 154 Bonds) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

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

**Basis of Presentation**

The Chapter 154 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.

*Government-wide Financial Statements*

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

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

*Fund Financial Statements*

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

**Fund Accounting**

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

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

*Bond Service Funds*

These debt service funds are used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs and special assessment long-term debt principal, interest and related costs. There are separate bond service funds for each classification of debt (Higher Education Facilities, Mental Health Facilities and Parks and Recreation Facilities).

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

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

**Measurement Focus**

*Government-wide Financial Statements*

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

*Fund Financial Statements*

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Basis of Accounting**

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

*Revenues*

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

*Expenses/Expenditures*

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

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

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

*Expenses/Expenditures (Continued)*

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 and special revenue 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, 2002.

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

**Fund Balance Reserves**

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

**Net Assets**

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

**Budgeting Process**

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

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

**Changes in Accounting Principles**

For 2002, the Treasurer has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." GASB 34 creates new basic financial statements for reporting on the Chapter 154 Bonds' financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. The beginning net asset amount for governmental funds reflects the change in fund balance for governmental funds at June 30, 2001 caused by the conversion to the accrual basis of accounting.

**Restatement of Fund Balance**

The implementation of these statements had the following effects on fund balance of Chapter 154 Bonds as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	Higher Education Bonds	Mental Health Bonds	Parks & Recreation Bonds
Fund Balances, June 30, 2001	\$3,870,027	\$126,464	\$48,967
<i>GASB 34 Adjustments:</i>			
Leases Receivable	1,732,395,000	280,400,000	100,235,000
Interest on Leases Receivable	9,729,967	1,186,679	441,990
Bonds Payable	(1,732,395,000)	(280,400,000)	(100,235,000)
Accrued Interest Payable	<u>(9,729,968)</u>	<u>(1,186,679)</u>	<u>(441,990)</u>
Net Assets, June 30, 2001	<u>\$3,870,026</u>	<u>\$126,464</u>	<u>\$48,967</u>

**NOTE 4 - CASH AND INVESTMENTS**

As of June 30, 2002, the carrying amounts of the Treasurer's deposits relating to the Obligations totaled \$2,233, the same as the banks' balances. Of these balances, \$2,233 was insured by the Federal Deposit Insurance Corporation.

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 Financial Institutions. STAR Ohio is a State investment pool managed under the auspices of the Treasurer of the State of Ohio for the exclusive use of political subdivisions of the State. STAR Ohio is not registered with the Securities Exchange Commission as an investment company, but does operate in a

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 4 – CASH AND INVESTMENTS (Continued)**

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, 2002. 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.

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

	<u>Book Value</u>	<u>Market Value</u>
Higher Education		
STAR Ohio	\$1,006,174	\$1,006,174
Mental Health		
STAR Ohio	178,658	178,658
Parks and Recreation		
STAR Ohio	<u>722,535</u>	<u>722,535</u>
<b>TOTAL</b>	<b><u>\$1,907,367</u></b>	<b><u>\$1,907,367</u></b>

Of the investment balance at June 30, 2002, \$1,907,367 represents non-categorized investments.

**NOTE 5 – BONDS AND NOTES**

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

	<b>Higher Education Lease Rental</b>	<b>Mental Health</b>	<b>Parks and Recreation</b>
108th General Assembly	\$265,000,000	\$152,000,000	\$20,000,000
109th General Assembly	165,000,000	-0-	-0-
110th General Assembly	64,400,000	40,000,000	-0-
111th General Assembly	254,118,000	185,715,000	-0-
112th General Assembly	217,220,000	211,035,000	24,250,000
113th General Assembly	-0-	694,500	-0-
114th General Assembly	608,578,087	71,356,980	35,900,000
115th General Assembly	303,788,913	32,550,520	-0-
116th General Assembly	413,260,000	84,893,000	2,500,000
117th General Assembly	402,000,000	48,300,000	38,000,000
118th General Assembly	568,795,000	88,655,000	7,000,000
119th General Assembly	428,940,000	79,900,000	38,450,000
120th General Assembly	679,200,000	77,500,000	30,000,000
121st General Assembly	559,000,000	68,400,000	22,700,000
122nd General Assembly	555,600,000	64,000,000	31,200,000
123rd General Assembly	<u>(667,310,000)(a)</u>	<u>76,000,000</u>	<u>41,000,000</u>
<b>TOTAL</b>	<b>\$4,817,590,000</b>	<b>\$1,281,000,000</b>	<b>\$291,000,000</b>

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

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2002**

**NOTE 5 – BONDS AND NOTES (Continued)**

Of such authorized amounts, there has been issued:

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2002(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-
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	7,800,000
Series II-1992A	251,855,000	2-1-92	12-1-07	5.649	7,700,000
Series II-1992B	115,000,000	7-1-92	11-1-07	5.559	15,100,000
Series II-1992C	136,110,000	10-1-92	12-1-07	5.431	12,800,000
Series II-1993A	205,800,000	6-1-93	6-1-08	4.867	51,700,000
Series II-1993B	120,000,000	12-1-93	12-1-08	4.854	14,800,000
Series II-1994A	253,000,000	3-1-94	12-1-08	4.484	75,300,000
Series II-1994B	120,000,000	11-1-94	11-1-09	5.982	22,000,000



**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 5 – BONDS AND NOTES (Continued)**

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2002(d)
<b>Higher Education (continued)</b>					
Series II-1995A	166,400,000	4-1-95	5-1-10	5.396	40,800,000
Series II-1995B	140,000,000	10-1-95	11-1-10	5.121	33,700,000
Series II-1996A	150,000,000	2-1-96	11-1-10	5.627	92,600,000
Series II-1996B	150,000,000	10-1-96	11-1-11	5.143	44,200,000
Series II-1997A	282,300,000	4-1-97	5-1-12	5.066	110,200,000
Series II-1997B	236,500,000	10-1-97	11-1-12	4.746	129,800,000
Series II-1998A	254,200,000	3-1-98	12-1-12	4.522	156,800,000
Series II-1998B	150,000,000	7-1-98	6-1-13	4.693	112,200,000
Series II-1998C	150,000,000	12-1-98	6-1-13	4.414	117,200,000
Series II-1999A	100,000,000	8-1-99	11-1-13	4.853	78,500,000
Series II-2001A	<u>394,495,000</u>	4-1-01	12-1-11	4.251	<u>394,495,000</u>
<b>TOTAL</b>	<b><u>\$4,817,590,000(a)</u></b>				<b><u>\$1,517,695,000(d)</u></b>
<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	3,100,000
Series II-1993A	40,000,000	2-1-93	12-1-07	5.186	10,300,000
Series II-1993B	178,335,000	11-1-93	6-1-08	4.515	33,090,000
Series II-1994A	40,000,000	11-1-94	12-1-09	6.033	8,600,000
Series II-1996A	40,000,000	2-1-96	12-1-10	4.672	27,100,000
Series II-1996B	40,000,000	10-1-96	6-1-11	5.200	11,000,000
Series II-1997A	40,000,000	12-1-97	12-1-12	4.807	31,800,000
Series II-1998A	60,800,000	7-1-98	6-1-13	4.634	40,200,000
Series II-2000A	30,000,000	6-1-00	6-1-15	5.286	25,180,000
Series II-2001A	56,970,000	4-1-01	12-1-10	4.112	56,970,000
Series II-2001B	<u>30,000,000</u>	8-1-01	6-1-16	4.54	<u>28,310,000</u>
<b>TOTAL</b>	<b><u>\$1,177,085,000(b)</u></b>				<b><u>\$275,425,000(d)</u></b>

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 5 – BONDS AND NOTES (Continued)**

	Amount of Obligations Issued	Bond Date	Final Maturity Date	Average Effective Interest Rate	Amount of Obligations Outstanding at June 30, 2002(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	1,200,000
Series II-1993A	20,000,000	3-1-93	12-1-07	4.739	10,300,000
Series II-1994A	20,000,000	9-1-94	6-1-09	5.414	2,900,000
Series II-1995A	31,100,000	10-1-95	6-1-10	5.097	4,200,000
Series II-1997A	26,000,000	12-1-97	12-1-12	4.649	8,000,000
Series II-2000A	20,000,000	2-1-00	12-1-14	5.472	18,300,000
Series II-2001A	25,000,000	2-1-01	12-1-15	4.576	23,975,000
Series II-2001B	20,935,000	4-1-01	12-1-09	4.019	20,785,000
Series II-2002A	<u>25,000,000</u>	5-1-02	6-1-17	4.459	<u>25,000,000</u>
<b>TOTAL</b>	<b><u>\$264,900,000(c)</u></b>				<b><u>\$114,660,000(d)</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 and \$394,495,000 Series II-2001A, all advance refunding Bonds.
- (b) Includes \$3,000,000 of bond anticipation notes retired from rental payments. Does not include \$71,700,000 Series 1987A, \$22,290,000 Series II-1992A, 137,940,000 Series II-1993B, \$21,250,000 Series II-1998A and \$56,970,000 Series II-2001A, 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, \$11,100,00 Series II-1995A, \$15,850,000 Series II-1997A and \$20,935,000 Series II-2001B, all advance refunding bonds.
- (d) Total does not include bonds advance refunded but does include advance refunding bonds issued.

The Obligations outstanding at June 30, 2002 are in the form of fully registered bonds which mature in various amounts and at various dates and bear interest payable semi-annually at various interest rates. The Bonds maturing after specified dates are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity. The redemption price varies from 102% to 100% dependent upon the terms of the particular series of the Bonds and the redemption date.

In conformity with GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, the Treasurer must disclose certain facts in the State's annual financial report on advance refundings of debt.

For advance refunded bonds, the trustee is provided funds which are put into escrow accounts to provide for all future debt service payments on the refunded bonds. Upon such a refunding, the Treasurer is no longer responsible itself for making any future payments of principal and interest on those refunded bonds. Accordingly, the trust accounts' assets and the liabilities for the advance refunded bonds are not included in the Treasurer's financial statements.

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
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YEAR ENDED JUNE 30, 2002**

**NOTE 5 – BONDS AND NOTES (Continued)**

As of June 30, 2002, the following refunded bonds were yet to come due and were still payable by the trustee from escrowed funds:

<b>Refunded Issue</b>	<b>Principal Yet to Be Paid As of June 30, 2002</b>	<b>Date Bonds will be Redeemed</b>
Higher Education, Series II-1992B	\$37,100,000	Nov. 1, 2002
Higher Education, Series II-1992C	\$30,200,000	Dec. 1, 2002
Higher Education, Series II-1993B	\$42,800,000	Dec. 1, 2003
Higher Education, Series II-1994B	\$46,300,000	Nov. 1, 2004
Higher Education, Series II-1995A	\$54,100,000	May 1, 2005
Higher Education, Series II-1995B	\$53,000,000	Nov. 1, 2005
Higher Education, Series II-1996B	\$56,400,000	Nov. 1, 2006
Mental Health, Series II-1993A	\$8,400,000	Dec. 1, 2002
Mental Health, Series II-1994A	\$16,400,000	Dec. 1, 2004
Mental Health, Series II-1996B	\$16,100,000	Jun. 1, 2006
Parks & Recreation Series II-1992A	\$2,800,000	Dec. 1, 2002
Parks & Recreation Series II-1994A	\$8,500,000	Jun. 1, 2004
Parks & Recreation Series II-1995A	\$8,400,000	Jun. 1, 2005
Total:	\$380,500,000	

A schedule of changes in the carrying amount of Chapter 154 Bonds during 2002 follows (amounts reflect recognition of premium on bonds issued during the year):

	Amount Outstanding 6/30/01	Additions	Deletions	Amount Outstanding 6/30/02	Amounts Due in One Year
Higher Education	1,732,395,000	-	214,700,000	1,517,695,000	198,600,000
Mental Health	280,400,000	30,323,043	35,002,579	275,720,464	36,372,690
Parks & Recreation	100,235,000	25,787,043	10,575,011	115,447,032	9,157,026
Total Special Obligation Bonds	<u>\$2,113,030,000</u>	<u>\$56,110,086</u>	<u>\$260,277,590</u>	<u>\$1,908,862,496</u>	<u>\$244,129,716</u>

The aggregate payments of interest and principal (not including future amortization of bond premium) for bonds outstanding as of June 30, 2002 are as follows:

<b>Years Ending June 30</b>	<b>Higher Education</b>		<b>Mental Health</b>		<b>Parks and Recreation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2003	198,600,000	70,273,863	36,340,000	12,710,352	9,070,000	5,187,801
2004	190,570,000	60,809,400	35,725,000	10,991,927	9,650,000	4,691,191
2005	164,415,000	52,374,862	28,250,000	9,317,807	10,170,000	4,233,040
2006	156,005,000	44,315,381	28,860,000	7,946,001	10,565,000	3,773,237
2007	163,905,000	36,592,206	30,260,000	6,448,457	11,030,000	3,331,100
2008-12	580,100,000	81,966,400	93,315,000	16,206,130	39,345,000	10,708,565
2013-17	<u>64,100,000</u>	<u>2,495,700</u>	<u>22,675,000</u>	<u>2,382,789</u>	<u>24,830,000</u>	<u>3,140,893</u>
Total	<u>\$1,517,695,000</u>	<u>\$348,827,812</u>	<u>\$275,425,000</u>	<u>\$66,003,463</u>	<u>\$114,660,000</u>	<u>\$35,065,827</u>

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 6 – RENTAL PAYMENTS AND BOND SERVICE FUNDS**

The primary sources of payments, as contemplated under the respective bond and note proceedings, for meeting bond interest and principal requirements and establishing and maintaining any funded "required reserve" and meeting any note interest and principal (partial) requirements, are rentals paid to the Treasurer by the Board of Regents, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities, and the Department of Natural Resources, from moneys appropriated for such purposes by the General Assembly. The respective obligations of the Board of Regents, the Department of Mental Health and the Department of Mental Retardation and Developmental Disabilities, and the Department of Natural Resources, to make such rental payments pursuant to the respective leases are expressly made subject to the availability of appropriations for such purposes. Each lease terminates when the Treasurer has paid or retired all of the bonds or bond anticipation notes contemplated by that lease for the respective category of facilities.

For the 2002-03 biennium, the 124th General Assembly appropriated, from the General Revenue Fund, the amounts necessary to meet the payments required under such leases, not exceeding \$563,969,000 for higher education facilities, \$102,060,400 for mental health facilities and \$30,490,500 for parks and recreation facilities. Of these appropriated amounts, there have been paid to the Treasurer in Fiscal Year 2002 \$293,946,612 with respect to higher education, \$49,162,527 with respect to mental health facilities and \$15,409,855 with respect to parks and recreational facilities. Such amounts were paid into the Treasurer's respective Bond Service Funds that are established to receive rental and other payments and to make payments of bond service charges (principal and interest). Also, in fiscal year 2002, loans in the amount of \$110,875 were disbursed in the Higher Education Bond Service Fund.

There were additional funds available to support rental payments required under the respective bond proceedings in the amount of \$820,055 for higher education capital facilities bonds, \$335,326 for mental health capital facilities bonds, and \$853,508 for parks and recreation capital facilities bonds. These unappropriated funds are comprised of interest earnings, accrued interest and original issue premium on fiscal year 2002 bond sales, and, in the case of higher education, loan repayments to the Board of Regents.

The respective Bond Service Accounts under the Trust Agreements for the Mental Health Capital Facilities Bonds, Higher Education Capital Facilities Bonds, and the Parks and Recreation Capital Facilities Bonds, are restricted to payments of principal of 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. A single series, the Higher Education Capital Facilities Bonds, Series II-1991B, has a debt service reserve in the form of a financial guaranty bond.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2002 consisted primarily of leases receivable from State agencies, accrued interest on the leases, and loans receivable from State universities.

**LEASE REVENUE BONDS GOVERNED BY OHIO REVISED CODE CHAPTER 154  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**NOTE 8 – RELATIONSHIP WITH THE STATE OF OHIO**

The Treasurer of the State of Ohio is 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.

**NOTE 9 – SUBSEQUENT EVENTS**

On August 8, 2002, the Treasurer sold \$30,000,000 of Mental Health Capital Facilities Bonds, Series II-2002A by private sale to an underwriting group lead by Banc One Capital Markets, Inc. and Fifth Third Securities, Inc. at a true interest cost of 4.0696%.

On September 10, 2002, the Treasurer sold \$253,275,000 of Higher Education Capital Facilities Bonds, Series II-2002A (for the sole purpose of refunding \$260,300,000 of outstanding Higher Education Capital Facilities Bonds) by private sale to an underwriting group lead by UBS PaineWebber and Seibert, Branford Shank & Co., LLC at a true interest cost of 3.322%.

On September 10, 2002, the Treasurer sold \$38,065,000 of Mental Health Capital Facilities Bonds, Series II-2002B (for the sole purpose of refunding \$39,175,000 of outstanding Mental Health Capital Facilities Bonds) by private sale to an underwriting group lead by UBS PaineWebber and Seibert, Branford Shank & Co., LLC at a true interest cost of 2.916%.

On September 10, 2002, the Treasurer sold \$9,675,000 of Parks and Recreation Capital Facilities Bonds, Series II-2002B (for the sole purpose of refunding \$9,400,000 of outstanding Parks and Recreation Capital Facilities Bonds) by private sale to an underwriting group lead by UBS PaineWebber and Seibert, Branford Shank & Co., LLC at a true interest cost of 2.495%.

Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**Independent Auditors' Report on Compliance and on Internal  
Control over Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Treasurer, State of Ohio and  
The Members of the Ohio Public Facilities Commission  
Columbus, Ohio

We have audited the financial statements of the Lease Revenue Bonds Governed By Ohio Revised Code Chapter 154 (the Obligations) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 9, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Obligations' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Controls over Financial Reporting

In planning and performing our audit, we considered the Obligations' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses is a 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 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.

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

*Clark, Schaefer, Hackett & Co.*

Columbus, Ohio  
January 9, 2003



**Auditor of State  
Betty Montgomery**

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P.O. Box 1140  
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Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**TRESURER 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  
FEBRUARY 25, 2003**