

STATE OF OHIO GENERAL OBLIGATION BONDS AND BOARD OF DEPOSIT

FRANKLIN COUNTY

JUNE 30, 2008

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON-PROCEDURES

Jake Wozniak, Sinking Fund Director
Commissioners of the Sinking Fund
30 E. Broad St., 9th Floor
Columbus, OH 43215

Cynthia L. Klatt, Assistant Chief Auditor
Auditor of State
88 E. Broad Street, 10th Floor
Columbus, OH 43215

Kurt Kauffman, State Debt Manager
Office of Budget and Management
Asst. Secy., Ohio Public Facilities Commission
30 E. Broad St., 35th Floor
Columbus, OH 43215

Stacey Cumberlander, Secretary
State Board of Deposit
30 E. Broad St., 9th Floor
Columbus, OH 43215

Dear Mr. Wozniak, Ms. Klatt, Mr. Kauffman, and Ms. Cumberlander:

We have performed the procedures enumerated below, which were agreed to by the management of the Commissioners of the Sinking Fund (CSF), Ohio Public Facilities Commission (OPFC), State Board of Deposit (BOD), and Auditor of State solely to assist you in gaining assurance over (1) the accuracy and completeness of the Schedule of General Obligations Bonds from the Semi-Annual Report January 1, 2008 to June 30, 2008, issued by CSF, (2) compliance with debt issuance procedures and (3) compliance with Revised Code Chapter 135 requirements and accuracy of bank fees paid during the fiscal year ended June 30, 2008. This agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are described in the following section of this report.

1. To help assure the accuracy and completeness of the Schedule of General Obligation Bonds from the "Semi-Annual Report January 1, 2008 to June 30, 2008" prepared by CSF (attached), examine supporting documentation for the bonds authorized, bonds issued, outstanding bond debt, interest paid through June 30th, remaining interest through maturity, and cash balance in the applicable bond service funds and describe the documentation used to support the amounts.

Findings:

Bonds authorized – Various sections of Article VII of the Ohio Constitution, as approved by voters, authorizes the issuance of Highway Capital Improvement Bonds, Coal Research and Development Bonds, Natural Resources Capital Facilities Bonds, Common Schools Capital Facilities Bonds, Higher Education Capital Facilities Bonds, Public Infrastructure Capital Improvements Bonds, Conservation Projects Bonds, Third Frontier Research and Development Projects Bonds, and Third Frontier Job Ready Site Development Bonds. The authority to issue bonds in amounts authorized was conferred upon the CSF, OPFC, and the Treasurer of State of Ohio through legislation of the General Assembly.

According to the Semi-Annual Report January 1, 2008 to June 30, 2008, there have been 62 individual bond authorizations granted by the General Assembly. We traced all 62 bond authorizations to a bond authorization schedule maintained by the Office of Budget and Management. In addition, we traced 55 of the 62 bond authorizations to the supporting legislation of the General Assembly.

Bonds Issued – The bonds issued balance reported on the Schedule of General Obligation Bonds includes bonds issued and refunded, but excludes refunding bonds in cases when issued. This balance traced and agreed to bond issuance documents without exception.

Outstanding Bonded Debt – The outstanding bonded debt balance reported on the Schedule of General Obligation Bonds excludes bonds refunded, but includes refunding bonds in cases when issued. This balance traced and agreed to debt-service-to-maturity schedules without exception.

Interest Paid through 06/30/08 - The interest paid through 06/30/08 balance reported on the Schedule of General Obligation Bonds as of June 30, 2008 consists of both fixed and variable rate bond interest paid. For the State's fixed rate bonds interest payments traced and agreed to debt-service-to-maturity schedules without exception. For the State's variable rate bonds all interest payments were traced and agreed to invoices from the bondholders without exception.

Remaining Interest through Maturity – The remaining interest through maturity balance reported on the Schedule of General Obligation Bonds as of June 30, 2008 consists of future interest payments. This balance traced and agreed to debt-service-to-maturity schedules without exception. The debt-service-to-maturity schedules for the State's nine variable rate bonds, each of which have a swap agreement establishing a fixed swap rate, contain estimates for future interest payments to bondholders. For all nine of the variable rate bonds, the CSF estimated future interest rates at 4% through maturity.

Cash Balance in Bond Service Fund – The Cash Balance in Bond Service Fund balance reported on the Schedule of General Obligation Bonds as of June 30, 2008 traced and agreed to the Ohio Administrative Knowledge System Balance Report as of July 3, 2008 without exception.

2. We will review the process for issuing debt at OPFC and determine: what debt was issued during the fiscal year; whether this debt issuance was properly approved; which purpose the debt served (primary and secondary education, higher education, natural resources and conservation, coal research and development, infrastructure improvements, third frontier research and development, or site development); and the debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

Findings:

Debt issued by OPFC during fiscal year 2008 was as follows:

Purpose	Series	Amount
Coal Research and Development	2007 I	\$ 8,000,000
Public Infrastructure and Capital Improvements	2007 A	\$ 120,000,000

Each issuance was properly approved via Resolution and was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

3. If the Treasurer of State issued general obligation debt for Highway Capital Improvements during the fiscal year, we will review the process for issuing debt at the Treasurer of State; determine whether the debt issuance was approved by the proper authority; and determine that the debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

Findings:

During fiscal year 2008, the Treasurer of State issued \$140 million in Highway Capital Improvement bonds. Pursuant to our review of bond issuance documents, the bonds were properly certified by the Office of the Treasurer of State and Director of the Ohio Department of Transportation. The debt was accurately reflected as "bonds issued" as of June 30th on the "Schedule of General Obligation Bonds" in the CSF semi-annual report.

4. We will review the monthly BOD minutes to determine whether a quorum was present, prior minutes were approved, and minutes contained sufficient facts and information to understand rationale behind decisions made. The BOD is required to meet monthly per Section 135.02, Revised Code.

Findings:

Pursuant to our review of the monthly BOD minutes, we noted that a quorum was present and prior minutes were approved each month. In addition, the minutes contained sufficient facts and information to understand the rationale behind decisions made.

5. We will determine that interim deposits (investments) were approved by the BOD on a monthly basis. Section 135.09, Revised Code states that interim deposits may be awarded by the treasurer or governing board as interim moneys become available.

Findings:

Pursuant to our review of the monthly BOD minutes, we noted that a motion was moved and carried each month to ratify the previous months' interim funds.

6. We will select two monthly bank statements of the approved depository bank for the State of Ohio's active deposits and determine that the Treasurer of State paid the

appropriate amount of bank fees to the public depository by recalculating the bank fees. The BOD designates the public depositories of state monies biennially per Section 135.12, Revised Code.

Findings:

Key Bank is the approved depository bank for the State of Ohio's active deposits. We obtained the Key Bank Account Analysis Statement, which details all service charges for the month, for the months of September 2007 and March 2008, and attempted to recalculate the bank fees by tracing AFP Codes/Unit Prices to the banking services agreement and Quantity to appropriate supporting documentation. Our results were as follows:

September 2007 (37 bank accounts included in the Account Analysis Statement):

- For 13 of the bank accounts, we were able to recalculate bank fees without exception;
- For 21 of the bank accounts, we were unable to trace certain Quantities to appropriate supporting documentation;
- For 7 of the bank accounts, we were unable to trace certain AFP Codes/Unit Prices to the banking services agreement;
- For one of the bank accounts, the Unit Price for certain AFP Codes did not agree with the Unit Price stated in the banking services agreement; and
- For the 6 bank accounts charged an FDIC Assessment, we were unable to trace the amount assessed to appropriate supporting documentation.

March 2008 (37 bank accounts included in the Account Analysis Statement):

- For 17 of the bank accounts, we were able to recalculate bank fees without exception;
- For 15 of the bank accounts, we were unable to trace certain Quantities to appropriate supporting documentation;
- For one of the bank accounts, we were unable to trace certain AFP Codes/Unit Prices to the banking services agreement;
- For one of the bank accounts, the Unit Price for certain AFP Codes did not agree with the Unit Price stated in the banking services agreement; and
- For the 9 bank accounts charged an FDIC Assessment, we were unable to trace the amount assessed to appropriate supporting documentation.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accuracy and completeness of the Schedule of General Obligations Bonds from the Semi-Annual Report January 1, 2008 to June 30, 2008, issued by the Commissioners of the Sinking Fund, as well as compliance with debt issuance procedures and Revised Code Chapter 135 requirements and accuracy of bank fees paid during the fiscal year ended June 30, 2008. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The specified parties' response to our findings is attached to this report. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Commissioners of the Sinking Fund, Ohio Public Facilities Commission, State Board of Deposit, and Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC
October 7, 2008

Response to Findings:

Upon taking office, Treasurer Cordray undertook a comprehensive analysis on behalf of the Board of Deposit of its banking contract with KeyBank and related billing, dating back to 1997. It was determined after reviewing service fees and earnings credits that \$417,890.83 should have been credited to the State over the last ten years. Treasurer Cordray then initiated a painstaking review of the Board's other banking contracts and billing, spanning 168 separate accounts at six other main depositories, which resulted in an additional recovery of \$470,205.27 for service fee errors and earnings credits that had not been properly paid to the State over the past several years. During this contract review process in 2007, the Treasury discovered shortcomings in its recordkeeping systems under prior administrations that allowed these errors to go unnoticed historically. These shortcomings included the inability to track AFP codes/unit prices and quantities of particular transactions. These deficiencies have been addressed with the hiring of new staff and the continued implementation of updated software, which will allow the Treasury to work with state agencies to track more accurately AFP codes/unit prices and the quantities of particular transactions going forward.

STATE OF OHIO
SCHEDULE OF GENERAL OBLIGATION BONDS
As of June 30, 2008

Legal Authority & Date of Voter Authorization	HIGHWAY CAPITAL IMPROVEMENTS BONDS Section 2m of Article VIII, Ohio Constitution 11/07/95	COAL RESEARCH AND DEVELOPMENT BONDS Section 15 of Article VIII, Ohio Constitution 11/05/85	NATURAL RESOURCES CAPITAL FACILITIES BONDS Section 2l of Article VIII, Ohio Constitution 11/02/93
Bonds Authorized	\$2,420,000,000	\$231,000,000	\$350,000,000
Bonds Issued (A)	1,945,000,000	158,000,000	295,000,000
Bonds Authorized, but not Issued	475,000,000	73,000,000	55,000,000
Bonds Matured	1,107,500,000	125,620,000	137,740,000
Outstanding Bonded Debt (B)	837,500,000	32,380,000	160,425,000
Total Interest Cost to Maturity	504,576,813	43,602,204	102,537,983
Interest Paid through 06/30/08	351,184,099	40,032,022	71,381,760
Remaining Interest through Maturity	153,392,714	3,570,182	31,156,223
Original Discount on			
Capital Appreciation Bonds	—	—	—
Accreted Principal Paid through 06/30/08	—	—	—
Remaining Discount through Maturity	—	—	—
Cash Balance in Bond Service Fund	8,017,453	39,153	25,445
Final Maturity Date	05/01/18	08/01/15	04/01/20
Funding Source(s)	Highway Use Tax, Gasoline Tax & International Registration Plan Fees	General Revenue Fund Appropriation	General Revenue Fund Appropriation

Legal Authority & Date of Voter Authorization	COMMON SCHOOLS CAPITAL FACILITIES BONDS Section 2n of Article VIII, Ohio Constitution 11/02/99	HIGHER EDUCATION CAPITAL FACILITIES BONDS Section 2n of Article VIII, Ohio Constitution 11/02/99	PUBLIC INFRASTRUCTURE CAPITAL IMPROVEMENTS BONDS Section 2m of Article VIII, Ohio Constitution 11/03/87
Bonds Authorized (D)	\$3,345,000,000	\$2,613,000,000	\$2,880,000,000
Bonds Issued (A)	3,290,000,000	2,000,000,000	2,399,986,136
Bonds Authorized, but not Issued	55,000,000	613,000,000	480,013,864
Bonds Matured	513,520,000	409,375,000	1,041,551,711
Outstanding Bonded Debt (B)	2,769,170,000	1,589,085,000	1,355,190,254
Total Interest Cost to Maturity (C)	1,765,278,954	1,100,152,922	1,150,900,292
Interest Paid through 6/30/08	574,917,236	411,464,008	679,484,160
Remaining Interest through Maturity (C)	1,190,361,718	688,688,914	471,416,132
Original Discount on			
Capital Appreciation Bonds	—	—	281,518,034
Accreted Principal Paid through 06/30/08	—	—	140,953,288
Remaining Discount through Maturity	—	—	140,564,746
Cash Balance in Bond Service Fund	44,543	125,620	76,186
Final Maturity Date	09/15/26	11/01/26	09/01/27
Funding Source(s)	General Revenue Fund Appropriation & Net Lottery Proceeds	General Revenue Fund Appropriation	General Revenue Fund Appropriation

Legal Authority & Date of Voter Authorization	CONSERVATION PROJECTS BONDS Section 2o of Article VIII, Ohio Constitution 11/07/00	THIRD FRONTIER RESEARCH AND DEVELOPMENT PROJECTS BONDS Section 2p of Article VIII, Ohio Constitution 11/08/05	THIRD FRONTIER JOB READY SITE DEVELOPMENT BONDS Section 2p of Article VIII, Ohio Constitution 11/08/05
Bonds Authorized	\$240,000,000	\$350,000,000	\$120,000,000
Bonds Issued (A)	200,000,000	80,720,000	30,000,000
Bonds Authorized, but not Issued	40,000,000	269,280,000	90,000,000
Bonds Matured	33,575,000	18,560,000	5,595,000
Outstanding Bonded Debt (B)	166,425,000	62,160,000	24,405,000
Total Interest Cost to Maturity	79,699,014	17,386,590	5,724,035
Interest Paid through 06/30/08	25,289,944	4,637,135	1,431,380
Remaining Interest through Maturity	54,409,070	12,749,455	4,292,655
Original Discount on			
Capital Appreciation Bonds	—	—	—
Accreted Principal Paid through 06/30/08	—	—	—
Remaining Discount through Maturity	—	—	—
Cash Balance in Bond Service Fund	25,988	19,123	14,407
Final Maturity Date	09/01/22	05/01/17	05/01/16
Funding Source(s)	General Revenue Fund Appropriation	General Revenue Fund Appropriation	General Revenue Fund Appropriation

Notes:

- (A) The "Bonds Issued" balance includes bonds issued and refunded, but excludes refunding bonds in cases when issued. Also, not more than
- \$220 million in Highway Capital Improvements Bonds may be issued in any year
 - \$50 million in Natural Resources Capital Facilities Bonds may be issued in any fiscal year
 - \$120 million in Public Infrastructure Capital Improvements Bonds may be issued annually through fiscal year 2013 and not more than \$150 million may be issued annually in fiscal years 2014 through 2018; the total bonds issued may not exceed \$3.75 billion
 - \$50 million in Conservation Projects Bonds may be issued in any fiscal year
 - \$100 million in Third Frontier Research and Development Projects Bonds may be issued in each of the first three fiscal years and not more than \$50 million in any other fiscal year
 - \$30 million in Third Frontier Job Ready Site Development Bonds may be issued in each of the first three fiscal years and not more than \$15 million in any other fiscal year
- (B) The "Outstanding Bonded Debt" balance excludes bonds refunded, but includes refunding bonds in cases when issued. Also, not more than
- \$1.2 billion in Highway Capital Improvements Bonds may be outstanding at any time.
 - \$100 million in Coal Research and Development Bonds may be outstanding at any time.
 - \$200 million in Natural Resources Capital Facilities Bonds may be outstanding at any time
 - \$200 million in Conservation Projects Bonds may be outstanding at any time
- (C) The "Total Interest Cost to Maturity" and "Remaining Interest through Maturity" balances for the Common Schools Capital Facilities Bonds and the Public Infrastructure Capital Improvements Bonds include estimates for interest payable on variable rate bonds in the future.
- (D) The amounts of general obligations authorized for Common Schools Facilities and for Higher Education Facilities have been reduced by \$800 million and \$950 million, respectively, as a result of proceeds generated by the Buckeye Tobacco Settlement Financing Authority, which will be used to fund such purposes for fiscal year 2008 and 2009 in lieu of bonded debt.



Mary Taylor, CPA
Auditor of State

STATE OF OHIO GENERAL OBLIGATION BONDS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 18, 2008**