

Ohio Building Authority

*Financial Statements for the
Year Ended June 30, 2006 and
Independent Auditors' Report*



**Auditor of State
Betty Montgomery**

Ohio Building Authority
30 E. Broad St, Suite 4020
Columbus, Ohio 43215

We have reviewed the *Independent Auditor's Report* of the Ohio Building Authority, Franklin County, prepared by Kennedy, Cottrell & Associates, LLC, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Building Authority is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 15, 2006

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OHIO BUILDING AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Ohio Building Authority and
The Honorable Betty Montgomery, Auditor of the State of Ohio
Columbus, Ohio

We have audited the accompanying financial statements of the enterprise fund and the remaining fund information of the Ohio Building Authority, (the "Authority") a component unit of the State of Ohio, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these component unit 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 described in Note 1, the financial statements of the Ohio Building Authority are intended to present the financial position and results of operations and cash flows of only that portion of the funds of the State of Ohio that is attributable to the transactions of the Ohio Building Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund and the remaining fund information of the Ohio Building Authority as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedules of Projects on pages 26-33 are presented for the purposes of additional analysis and are not a required part of the component unit financial statements of the Authority. The supplementary information is the responsibility of the management of the Authority. The schedules have been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2006 on our consideration of the Ohio Building Authority's internal control over reporting and our test of its compliance and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal controls 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 read in conjunction with this report in considering the results of our audit.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
September 29, 2006

OHIO BUILDING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2006 (Dollars in thousands)

This section of the Ohio Building Authority's (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial activities for the fiscal year ended June 30, 2006. The Authority is a component unit of the State of Ohio. Readers are encouraged to consider this information in conjunction with the accompanying financial statements and notes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements consist of (1) the basic financial statements, (2) management's discussion of and analysis and (3) notes to the financial statements. Because the Authority is a component unit of the State of Ohio, all of the statements presented in this discussion focus on the portion of the funds of the State of Ohio that are attributed to the transactions of the Ohio Building Authority.

- The financial statements and the management's discussion and analysis provide both long-term and short-term information about the Authority's overall financial status.
- Management's discussion and analysis provides a narrative overview of the financial statements from management's perspective.
- The basic financial statements provide information about the Authority's overall financial status.
- The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.

Please refer to Note 1 to the financial statements for a more complete discussion of the Authority's basis of presentation.

Restatement

Pursuant to House Bill 16 of the 126th General Assembly, effective July 1, 2005, the Treasurer of the State of Ohio superseded and replaced the Authority in all matters relating to the issuance of obligations for financing of Arts and Sports Facilities, including all of the duties, powers, obligations and functions of the Authority pursuant to obligations previously issued by the Authority for financing of Arts and Sports Facilities. Accordingly, all of the related Assets and Liabilities of the Arts and Sports Facilities were transferred to the Treasurer of the State of Ohio as of July 1, 2005, and the Authority's financial statements for the year ended June 30, 2005, were restated to reflect the removal of the related net assets, operations and related cash flows.

Financial Information and Analysis

The following summarizes the Authority's financial positions for the fiscal year ended June 30, 2006 and 2005 (as restated):

	<u>2006</u>	<u>2005</u>
Assets:		
Current Assets	\$241,658	\$262,706
Non-Current Assets	1,718,538	1,902,440
Total Assets	<u>\$1,960,196</u>	<u>\$2,165,146</u>
Liabilities:		
Current Liabilities	\$217,674	\$232,373
Non-Current Liabilities	1,716,434	1,896,669
Total Liabilities	<u>1,934,108</u>	<u>2,129,042</u>
Total Net Assets—Restricted	<u>\$26,088</u>	<u>\$36,104</u>

During the period ending June 30, 2006, net assets of the Authority decreased by \$10,016 or 27.7%. The decrease in net assets is a result of the Authority's planned utilization of existing resources during the period ending June 30, 2006, somewhat offset by an increase in investment income.

The following represents the Authority's summary of changes in net assets for the fiscal year ended June 30, 2006 and 2005 (as restated):

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$108,717	\$124,086
Operating Expenses	25,164	25,710
Net Operating Gain	<u>83,553</u>	<u>98,376</u>
Non-Operating Expenses	<u>(93,569)</u>	<u>(100,496)</u>
Net Loss	(10,016)	(2,120)
Net Assets - Beginning of Year	<u>36,104</u>	<u>38,224</u>
Net Assets - End of year	<u>\$26,088</u>	<u>\$36,104</u>

Operating revenues decreased \$15,369 or 12.4% due to less lease interest revenues being collected as the Authority continues to refund debt associated with lease interest income, as well as, a decrease in rents due to the decrease in the Authority's budget.

Building maintenance and operational expenses decreased by 2.1% due to the aforementioned budgetary decreases.

Capital Asset Activity

During the fiscal year ended June 30, 2006, the Authority disbursed a total of \$200 in connection with renovations to the Bureau of Workers' Compensation's facility. Activities related to these projects are accounted for in an agency fund. Please refer to Note 1 to the financial statements for a more complete discussion of the basis of presentation for these projects.

Long-term Debt Activity

During the fiscal year ended June 30, 2006, the Authority issued three series of bonds totaling \$49,845. Of this amount issued \$34,845 was issued to refund a portion of bonds previously issued by the Authority. A total of \$15,000 was issued to provide additional funding for various state projects. Bond proceeds from bond issuances are generally sent directly to the State by the trustee. In 2006, \$259 of those proceeds were transferred to the Authority at the direction of the State, and were applied against interest payments due from the State.

During the fiscal year ended June 30, 2006, the Authority paid \$191,553 of principal on bonds. Please refer to Note 5 to the financial statements for a more complete discussion of the Authority's long-term debt activity.

Recent / Subsequent Events

Subsequent to the year ended June 30, 2006, the Authority issued two series of bonds totaling \$110,335. Of the amount issued, \$70,335 was to refund a portion of bonds previously issued by the Authority. A total of \$40,000 was issued to provide additional funding for various state projects. Please refer to Note 5 of the financial statements for a more complete discussion of the Authority's long-term debt activity.

OHIO BUILDING AUTHORITY

STATEMENT OF NET ASSETS—ENTERPRISE FUND

JUNE 30, 2006

(Dollars in thousands)

ASSETS

CURRENT ASSETS:

Cash—unrestricted	\$ 504
Investments—restricted	28,847
Receivables:	
Leases—current portion	187,590
Lease interest receivable	23,263
Interest	101
Due from other funds	1
Accounts receivable	854
Other assets	486
Cash—restricted	<u>12</u>

Total current assets 241,658

NON-CURRENT ASSETS:

Leases receivable	1,708,739
Deferred debt issuance cost	<u>9,799</u>

Total assets \$ 1,960,196

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities:	
Restricted	6,254
Unrestricted	155
Bonds payable—current portion	187,590
Other liabilities	412
Accrued interest	<u>23,263</u>

Total current liabilities 217,674

NON-CURRENT LIABILITIES—Bonds payable, net 1,716,434

Total liabilities 1,934,108

TOTAL NET ASSETS—Restricted \$ 26,088

OHIO BUILDING AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS—ENTERPRISE FUND YEAR ENDED JUNE 30, 2006 (Dollars in thousands)

OPERATING REVENUES:	
Rents	\$ 25,345
Lease interest	81,557
Other	<u>1,815</u>
Total operating revenues	<u>108,717</u>
OPERATING EXPENSES:	
Building maintenance and operations	16,137
Utilities	5,022
General administration	2,513
Other	<u>1,492</u>
Total operating expenses	<u>25,164</u>
OPERATING GAIN	<u>83,553</u>
NON-OPERATING REVENUES (EXPENSES):	
Earnings on investments	2,347
Interest expense and other	<u>(95,916)</u>
Total non-operating expenses	<u>(93,569)</u>
NET LOSS	<u>(10,016)</u>
NET ASSETS—Beginning of year, as restated	<u>36,104</u>
NET ASSETS—End of year	<u>\$ 26,088</u>

See notes to financial statements.

OHIO BUILDING AUTHORITY

STATEMENT OF CASH FLOWS—ENTERPRISE FUND

YEAR ENDED JUNE 30, 2006

(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers:

State operating rent	\$ 21,601
Local operating rent	3,401
Lease interest income receipts	<u>85,046</u>
Total cash received from customers	110,048

Cash received from quasi-external operating transactions with other funds

1,270

Cash payments to suppliers for goods and services

(25,150)

Cash payments to employees for services

(1,159)

Miscellaneous fees and commissions

1,968

Net cash flows provided by operating activities

86,977

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments on bonds

(191,553)

Interest paid

(103,787)

Principal receipts on capital leases

191,040

Refunding bond proceeds

38

Payment of debt issue costs

(38)

Net premium on sale of bonds

262

Net cash flows used in capital and related financing activities

(104,038)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales and maturities of investments

329,293

Purchase of investments

(314,561)

Investment income received

2,329

Net cash flows provided by investing activities

17,061

NET INCREASE IN CASH AND CASH EQUIVALENTS

RESTRICTED AND UNRESTRICTED—Beginning of year, as restated

516

RESTRICTED AND UNRESTRICTED—End of year

\$ 516

OPERATING GAIN

\$ 83,553

ADJUSTMENTS TO RECONCILE OPERATING GAIN

TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Amortization of lease discount / premium

1,698

Changes in assets and liabilities:

Decrease in lease interest receivable

2,096

Increase in account receivable—other

258

Decrease in other assets

20

Decrease in accounts payable and other liabilities

(648)

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

\$ 86,977

See notes to financial statements.

OHIO BUILDING AUTHORITY

STATEMENT OF NET ASSETS—AGENCY FUND

JUNE 30, 2006

(Dollars in thousands)

ASSETS

INVESTMENTS	\$ 1,540
Other assets:	
Interest receivable	6
Prepaid expenses	<u>25</u>
TOTAL ASSETS	<u>1,571</u>

LIABILITIES

Accounts payable	1
Due to other funds	1
Payable on behalf of the Agency	<u>1,569</u>
Total liabilities	<u>1,571</u>
NET ASSETS	<u><u>\$ -</u></u>

OHIO BUILDING AUTHORITY

NOTES TO COMBINED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Ohio Building Authority (the “Authority”), as created under the Ohio Revised Code, consists of five individuals appointed by the Governor with the advice and consent of the Senate. The Authority is an entity, both corporate and politic, of the State of Ohio (the “State”).

The powers and duties of the Authority are assigned to it by Chapter 152 of the Ohio Revised Code. These powers and duties include the authorization to acquire, purchase, construct, reconstruct, equip, furnish, improve, alter, enlarge, maintain, repair and operate office buildings and related storage and parking facilities for use by departments and agencies of the State of Ohio (and local and federal agencies in certain circumstances) on one or more sites within the State and to issue revenue obligations or other obligations to finance the cost of its projects. In addition, the Authority has been given the power to finance the construction of new, and improvements to, existing arts, sports, correctional, highway safety and transportation facilities. The holders or owners of its obligations are not given the right to require the General Assembly to levy excises or taxes for the payment of debt service on such obligations.

The Authority is a component unit of the State (the primary government) which uses funds to report on its combined financial position and results of its operations.

In October 1993, the Authority issued \$214,255,000 of bonds at rates from 3.3% to 5.1%, with payments due through 2014 on behalf of the Bureau of Workers’ Compensation (“BWC”). In May 2003, the Authority issued \$142,500,000 of refunding bonds at rates from 2.0% to 5.0% to completely refund the bonds issued in 1993. The Authority will retain BWC’s facility until the debt is repaid. Since BWC is a proprietary component unit of the State of Ohio, its financial statements report the asset and debt financed through the Authority. Accordingly, the Authority’s Enterprise Fund does not include BWC’s facility, leases receivable or long-term obligations issued by the Authority. The Authority’s financial statements include an Agency Fund to report construction and certain general administrative costs, respectively, related to BWC. At June 30, 2006, \$124,010,000 BWC bonds were outstanding.

Restatement

Pursuant to House Bill 16 of the 126th General Assembly, effective July 1, 2005, the Treasurer of the State of Ohio superseded and replaced the Authority in all matters relating to the issuance of obligations for financing of Arts and Sports Facilities, including all of the duties, powers, obligations and functions of the Authority pursuant to obligations previously issued by the Authority for financing of Arts and Sports Facilities. The transaction represented twelve bond issuances with combined outstanding principal as of that date in the amount of \$184,150,000. The effect of this transaction on the net assets of the Ohio Building Authority was as follows:

	Net Assets
Balance as of June 30, 2005 (in thousands)	\$ 36,261
Adjustments:	
Net assets of Arts and Sports Facilities Bonds as of June 30, 2005	(157)
Balance as of July 1, 2005, as restated	<u>\$ 36,104</u>

Basis of Presentation—The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued June 1999. GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis– for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Significant components of Statement No. 34 include the following:

- A Management’s Discussion and Analysis (“MD&A”) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements reported using the full-accrual basis of accounting for all of the Authority’s activities. The Authority follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provides a comprehensive look at the Authority’s financial activities.

Basis of Accounting—The financial statements of the Authority have been prepared on the accrual basis whereby revenue is recognized when earned, and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met. The notes accompanying these financial statements relate directly to the Authority. The Authority applies all applicable GASB pronouncements and the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements; Financial Accounting Standards Board (“FASB”) statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure. The Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

Charges for services are reported as operating revenues. Transactions, which are capital, financing or investment related, are reported as non-operating revenues. Expenses from employee wages and benefits, purchases of services, materials and supplies and other miscellaneous expenses are reported as operating expenses.

Leases Receivable—Leases receivable represent amounts due from the State for rent obligations, net of unearned income. No allowance for uncollectible amounts has been provided.

Restricted Assets and Liabilities—Proceeds from each of the projects that the Authority manages are restricted to use within that project by the bond trust agreements. All of the Authority’s assets and liabilities, with exception of cash held for administrative purposes, are classified as restricted, and equate to expendable restricted net assets.

Lease Revenue—Lease payments are collected from the State to satisfy the rent obligations under all of the project leases. Lease transactions are accounted for as direct financing leases whereby the present value of the future lease payments are recorded as a lease receivable using the interest rate implicit in the lease. Lease revenue is recognized as a constant percentage return on asset-carrying values.

Deferred Revenue—Deferred revenue represents certain bond proceeds due to the State, but remitted to the Authority at the direction of the State. There were no deferred revenue at June 30, 2006.

Long-Term Obligations—Long-term liabilities are reported on the Authority’s statement of net assets net of the applicable bond premiums and discounts, which are deferred and amortized over the life of the bonds using the effective interest method. Commercial paper notes are recorded at par at the time of issuance.

Compensated Absences—The Authority follows GASB Statement No. 16, *Accounting for Compensated Absences*, which requires that a liability be accrued for sick leave if it is probable that the employee will be compensated through a cash payment.

Investments—Investments are reported at fair value. Securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in a given year may have been recognized as an increase or decrease in the fair value of investments reported in prior years. In fiscal year 2006 the Authority invested only in governmental money market type funds that are carried at a dollar per dollar value thus, resulting in no difference between cost and carrying value of investment amounts, other than interest earnings.

2. CASH AND INVESTMENTS

Deposits

Custodial Credit Risk. The risk that, in the event of a bank failure, the Authority’s deposits may not be returned. The bank and financial statement balances of the Authority’s cash with custodians at June 30, 2006 was \$516 (in thousands). Of this amount \$213 was insured by Federal depository insurance. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2006, \$303 of the Authority’s bank balance was exposed to custodial risk and is considered uninsured, however, they are collateralized with investments held in pledged collateral pools by the various financial institutions.

Investments

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy generally limits investment portfolio maturities to five years or less on individual investments. Each portfolio should have an average maturity not exceeding two years, based upon the cash flow requirements of each account. Portfolio investments should be balanced across maturities to achieve the appropriate average maturity for the portfolio.

At year-end, the Authority had the following investments and maturities (in thousands) as follows:

Investment Type	Fair Value	Investment Maturities	
		12 months or less	
STAROhio	\$ 33	\$	33
Governmental Money Markets	30,354		30,354
Total investments	<u>\$ 30,387</u>	<u>\$</u>	<u>30,387</u>

Credit Risk. The majority of the Authority's investments are governed by the Bond trust agreements authorizing the Authority to invest, in general, in (1) U.S. Treasury obligations; (2) U.S. agency obligations; (3) collateralized certificates of deposits and repurchase agreements; (4) obligations of any state or political subdivision of any state of the United States (provided such obligations carry one of the two highest ratings of a nationally recognized rating service, provided further that the interest on such obligations is excluded from gross income for federal tax purposes); and (5) in certain circumstances, any money market fund invested solely in obligations described in clauses (1) and (2) above. The Authority may and does also invests in STAROhio, an investment pool managed by the State Treasurer's office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner similar to Rule 2a-7 of the Investment Company Act of 1940.

Investments in STAROhio are valued at STAROhio's share price that is the price the investment could be sold for on June 30, 2006.

Management of STAROhio states that its policy also prohibits investing in derivatives and/or engaging in the use of reverse repurchase agreements. Average days to maturity of the STAROhio portfolio at June 30, 2006 was 39 days.

The Authority's investments in the various governmental money markets and STAROhio were all rated "AAAm" by Standard & Poors.

Of the investment balance at June 30, 2006 \$28,847 represents restricted investments held in the Enterprise Fund and \$1,540 restricted investments held in the Agency Fund.

3. LEASES RECEIVABLE

The Authority's leasing operations consist of leasing of facilities for use by the State of Ohio (or any of its agencies) and by the local governments, under direct financing arrangements expiring in various years through 2026.

Following is a summary of the components of the Authority's net investment in direct financing leases (in thousands), at June 30, 2006:

Total minimum lease principal payments to be received	\$ 1,865,900
Add—deferred income	<u>30,430</u>
Net leases receivable	<u>\$ 1,896,330</u>

Minimum lease payments (in thousands) to be received as of June 30, 2006 are as follows:

2007	\$ 277,532
2008	258,308
2009	236,734
2010	227,943
2011	208,039
2012-2016	780,196
2017-2021	389,218
2022-2026	<u>108,839</u>
 Total minimum payments	 2,486,809
 Interest for capital leases	 <u>(620,909)</u>
 Minimum lease principal payments	 <u><u>\$1,865,900</u></u>

4. RESTRICTED ASSETS

In general, the trust agreements related to the issuance of the bonds payable established various funds that are used for the deposit and disbursement of cash. Deposits are principally lease receipts, cost reimbursements, interest earnings, and miscellaneous income. Expenditures are principally for project costs, debt service payments, and operating expenses. Deposits to and disbursements from the funds are governed by the provisions of the trust agreements. The trust agreements also require the segregation of specific funds (pledged receipts) as security for the bonds.

Pledged receipts (in thousands) at June 30, 2006 by type of project were:

	Pledged Receipts
Rhodes State Office Tower	\$ 5,314
Lausche State Office Building	2,661
DiSalle Government Center	9,794
Ocasek Government Office Building	4,130
Riffe Center for Government and the Arts	5,688
State Correctional Facilities	87
State Transportation Facilities	3
DAS Data Center	1
Administrative Building and Project	93
Juvenile Correctional Facilities	26
Bureau of Workers' Compensation	1,496
Highway Safety	<u>8</u>
 Total	 <u><u>\$29,301</u></u>

5. BONDS AND NOTES PAYABLE

The Authority issues bonds and notes to finance the costs of capital facilities for State departments and agencies and, in some cases, related facilities for local governments. Bonds issued for State agencies are reflected in the financial statements as special obligation bonds and bonds issued for local government facilities are shown as revenue bonds.

The bonds represent limited obligations of the Authority and do not constitute general obligations of the Authority or general obligations or debts of the State or any of the institutions of higher education within the meaning of any constitutional or statutory limitation. The Authority has no taxing power. The bonds are payable from lease revenue to be paid by the State pursuant to the provision of the leases and certain other funds and revenue provided for in the bond resolution.

Special obligation bonds are collateralized by pledges of lease rental payments from biennial General Fund, Highway Operating Fund, and BWC Administrative Cost Fund appropriations, funds held by trustees pursuant to related trust agreements and other receipts. The leases generally coincide with the State biennium, and are renewable for successive two-year periods until the project bonds are retired.

Lease payments are based upon the estimated debt service and administrative costs. In addition, lease payments from the Department of Administrative Services include reimbursement for building operating costs. However, lease payments are limited to an amount appropriated by the Ohio General Assembly. Under the Ohio Constitution, an appropriation may not be made for more than a two-year period. Currently, appropriations are made on or before July 1 of each odd-numbered year. The appropriations for fiscal year 2006 were as follows (in thousands):

	Rent	Operations
Ohio Department of Administrative Services— Office/Administrative Facilities	\$ 115,740	\$ 25,393
Ohio Department of Rehabilitation and Correction— Correctional Facilities	132,371	
Ohio Department of Transportation— Transportation Facilities	13,074	
Ohio Department of Natural Resources— Fountain Square Project	1,025	
Ohio Department of Youth Services— Juvenile Facilities	20,268	
Ohio Department of Public Safety— Highway Safety	13,387	
Bureau of Workers' Compensation	<u>19,737</u>	
Total	<u>\$ 315,602</u>	<u>\$ 25,393</u>

Changes in long-term bonds were as follows (in thousands):

Principal of bonds outstanding—June 30, 2005 (as restated)	\$2,042,573
Debt issued on behalf of other agencies under legislation enacted by the Ohio General Assembly	49,845
Principal retired	(191,553)
Bonds defeased	<u>(34,965)</u>
Principal of bonds outstanding—June 30, 2006	1,865,900
Unamortized bond premium and discounts, net	90,429
Deferred amounts on refundings	<u>(52,305)</u>
Total bonds outstanding	<u><u>\$1,904,024</u></u>

Bonds outstanding (in thousands) at June 30, 2006 are as follows:

	Amount of Obligation Issued	Bond Issue Date	Final Maturity Date	Interest Rates	2006 Balance
1992A (State Transportation)	\$ 17,000	September 1, 1992	September 1, 2007	6.0%-6.1%	\$ 2,260
1993A (DAS Data Center)	36,765	January 1, 1993	October 1, 2007	5.8%-5.9%	6,700
1993A (State Correctional)	69,970	January 1, 1993	October 1, 2008	5.8%-6.0%	14,785
1993A (Administrative Building)	60,000	March 1, 1993	October 1, 2007	5.60%	7,015
1995A (Administrative Building)	60,000	December 1, 1995	October 1, 2006	6.00%	4,250
1996A (Highway Safety)	18,200	April 1, 1996	October 1, 2010	5.10%	1,400
1996A (State Transportation)	26,800	April 1, 1996	September 1, 2006	6.00%	1,785
1996A (State Correctional)	69,540	December 1, 1996	October 1, 2009	5.25%-6.0%	25,845
1997A (Administrative Building)	85,000	January 15, 1997	October 1, 2007	5.00%	12,560
1997A (Adult Correctional)	110,000	April 1, 1997	April 1, 2007	6.00%	5,070
1997A (Highway Safety)	75,000	April 1, 1997	October 1, 2006	6.00%	5,375
1998A (Administrative Building)	130,000	January 15, 1998	October 1, 2017	4.75%-5.25%	37,860
1998B (Administrative Building)	19,545	January 15, 1998	October 1, 2010	5.125%-5.25%	8,240
1998A (DAS Data Center)	15,605	January 15, 1998	October 1, 2010	5.125%-5.25%	6,595
1998A (Adult Correctional)	100,000	March 15, 1998	April 1, 2008	5.50%	9,070
1998A (State Transportation)	12,000	March 15, 1998	September 1, 2007	4.50 %	2,400
1998B (State Transportation)	34,800	March 15, 1998	September 1, 2007	4.35%-5.0%	8,295
1998A (Rhodes Tower)	43,735	September 15, 1998	June 1, 2011	4.1%-5.25%	23,180
1999A (Juvenile Correctional)	50,000	February 1, 1999	October 1, 2009	4.0%-4.125%	9,160
1999B (Juvenile Correctional)	70,790	February 1, 1999	October 1, 2014	5.0%-5.25%	59,190
1999A (Administrative Building)	100,000	May 15, 1999	October 1, 2009	4.375%-5.0%	17,995
1999B (Administrative Building)	18,930	May 15, 1999	October 1, 2011	4.25%-5.25%	12,800
1999A (Adult Correctional)	150,000	July 1, 1999	October 1, 2009	4.625%-5.5%	28,115
2000A (Adult Correctional)	100,000	June 1, 2000	April 1, 2010	5.0%-5.75%	26,185
2001A (Juvenile Correctional)	39,000	February 1, 2001	April 1, 2016	4.25%-5.5%	29,230
2001A (Administrative Building)	120,000	April 1, 2001	October 1, 2020	5.0%-5.5%	102,045
2001A (Highway Safety)	20,000	April 1, 2001	October 1, 2020	4.0%-5.5%	16,460
2001A (Adult Correctional)	249,850	July 1, 2001	October 1, 2014	5.0%-5.5%	183,775
2002A (Administrative Building)	70,000	April 10, 2002	April 1, 2022	5.0%-5.5%	60,945
2002A (State Transportation)	13,060	April 10, 2002	September 1, 2009	4.00%	6,145
2002B (Administrative Building)	58,670	June 25, 2002	October 1, 2012	3.3%-5.25%	56,575
2002A (Adult Correctional)	50,000	October 8, 2002	April 1, 2022	3.0%-5.0%	43,805
2002B (Adult Correctional)	90,560	October 8, 2002	April 1, 2017	3.0%-5.25%	90,360
2003A (Juvenile Correctional)	30,000	March 14, 2003	April 1, 2018	2.5%-5.0%	25,105
2003A (Administrative Building)	100,000	July 22, 2003	April 1, 2023	4.5%-5.0%	93,135
2003A (DiSalle Center)	10,930	July 22, 2003	October 1, 2007	2.25%-4.0%	10,930
2003A (Lausche Building)	4,915	July 22, 2003	October 1, 2007	2.0%-2.25%	4,780
2003A (Ocacek Building)	2,695	July 22, 2003	October 1, 2007	2.0%-2.25%	2,585
2004A (Adult Correctional)	57,400	March 23, 2004	April 1, 2024	2.0%-5.25%	53,705
2004A (Highway Safety)	10,400	March 23, 2004	April 1, 2019	2.0%-3.4%	9,225
2004B (Highway Safety)	41,695	March 23, 2004	October 1, 2011	2.0%-5.0%	40,930
2004A (Administrative Building)	75,000	May 11, 2004	April 1, 2024	3.0%-5.0%	69,715
2004A (DNR Fountain Square)	3,910	May 11, 2004	October 1, 2008	2.5%-5.0%	3,030

Bonds outstanding (in thousands) at June 30, 2006 are as follows (continued):

	Amount of Obligation Issued	Bond Issue Date	Final Maturity Date	Interest Rates	2006 Balance
2004A (Riffe Center)	22,705	May 11, 2004	October 1, 2008	2.5%-5.0%	10,000
2004B (Adult Correctional)	42,665	May 11, 2004	October 1, 2008	4.5%-5.0%	22,670
2004B (Administrative Building)	130,750	October 21, 2004	October 1, 2018	3.125%-5.25%	130,750
2004C (Adult Correctional)	225,350	October 21, 2004	October 1, 2018	5.0%-5.25%	225,350
2005A (Administrative Building)	85,000	March 30, 2005	April 1, 2025	5.00%	82,440
2005B (Administrative Building)	29,150	March 30, 2005	October 1, 2011	5.00%	29,150
2005A (Highway Safety)	5,000	March 30, 2005	April 1, 2010	3.0%-5.0%	4,000
2005A (Adult Correctional)	75,000	June 1, 2005	April 1, 2025	5.00%	73,085
2005A (Juvenile Correctional)	15,000	October 6, 2005	October 1, 2015	3.25%-4.0%	15,000
2005B (Juvenile Correctional)	27,445	October 6, 2005	October 1, 2018	4.0%-5.0%	27,445
2005A (State Transportation)	7,400	October 6, 2005	September 1, 2010	3.25%-3.5%	7,400
Total bonds principal outstanding					1,865,900
Unamortized bond discount					90,429
Deferred amounts on refundings					<u>(52,305)</u>
Total bonds outstanding					<u>\$ 1,904,024</u>

Bonds maturing on or 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 103% to 100% dependent upon the terms of the particular series of the bonds and the date redeemed.

The maturities (in thousands) for all of the Authority's bonds and notes for the fiscal years ending June 30 are as follows:

	Principal	Interest
2007	\$ 187,590	\$ 89,942
2008	177,280	81,028
2009	164,070	72,664
2010	163,375	64,568
2011	151,785	56,254
2012-2016	597,505	182,691
2017-2021	325,665	63,553
2022-2026	98,630	10,209
Unamortized bond premium and discounts, net	90,429	
Deferred amounts on refundings	<u>(52,305)</u>	
Total	<u>\$1,904,024</u>	<u>\$620,909</u>

During the year ended June 30, 2006, the Authority issued \$49,845,000 in bonds on behalf of other agencies, under legislation enacted by the Ohio General Assembly. Of the \$49,845,000 of bonds issued \$15,000,000 were new money bonds (2005A Juvenile Correctional). Bond proceeds from bond issues are generally sent directly to the State by the trustee. In 2006, \$258,516 of those proceeds was transferred to the Authority at the direction of the State and was applied against interest payments due from the State.

During the year ended June 30, 2006, the Authority refunded various bonds by issuing \$34,845,000 of refunding bonds. The proceeds of the refunding bonds were used to purchase U.S. Government securities in amounts sufficient, without further investment, to pay, when due, the principal, interest and redemption premium on the bonds being refunded. The U.S. Government securities referred to above are placed with an escrow agent pursuant to the terms of related escrow agreements. The escrow agents are responsible for future debt service on the refunded bonds until they are fully retired. The funding of the escrow agreements defeased the related trust agreements and, accordingly, escrow accounts assets and related outstanding principal balances of the refunded bonds are not reflected in the accompanying combined financial statements.

State Facilities Refunding Bonds – Juvenile Correctional (Refunding) - During the year ended June 30, 2006, the Authority issued \$27,445,000 in 2005B refunding bonds with an average interest rate of 4.01% to defease in substance \$27,825,000 in principal, plus interest on the bonds being refunded. The bonds partially refunded were the 1999A Juvenile Correctional Building Fund Project Bonds. At June 30, 2006, the refunded bonds had an average interest rate of 5.03%. The refunding resulted in an economic gain of \$857,296. The refunding resulted in the Authority being able to reduce its total debt service payments over the life of the bonds by \$1,137,998.

State Facilities Refunding Bonds – State Transportation Facilities (Refunding) - During the year ended June 30, 2006, the Authority issued \$7,400,000 in 2005A refunding bonds with an average interest rate of 3.40% to defease in substance \$7,140,000 in principal, plus interest on the bonds being refunded. The bonds partially refunded were the 1996A Transportation Building Fund Project Bonds. At June 30, 2006, the refunded bonds had an average interest rate of 5.38%. The refunding resulted in an economic gain of \$238,885. The refunding resulted in the Authority being able to reduce its total debt service payments over the life of the bonds by \$260,006.

The bond issues refunded in current and prior years and the remaining principal outstanding at June 30, 2006 are as follows (in thousands):

Issue	Balance
Refunded	Outstanding
1997A Adult Correctional Building Fund Projects	\$ 46,000
1996A Highway Safety Building Fund Projects	6,380
1997A Highway Safety Building Fund Projects	32,040
1995A Administrative Building Fund Projects	19,370
1997A Adult Correctional Building Fund Projects	23,405
1998A Adult Correctional Building Fund Projects	62,390
1998A Administrative Building Fund Projects	55,185
1999A Administrative Building Fund Projects	56,765
1999A Adult Correctional Building Fund Projects	90,560
2000A Adult Correctional Building Fund Projects	41,995
1997A Administrative Building Fund Projects	29,565
1996A Transportation Building Fund Projects	7,140
1999A Juvenile Correctional Building Fund Projects	<u>27,825</u>
 Total	 <u><u>\$498,620</u></u>

Certain bonds defeased as of June 30, 2005, were called or retired during the year ended June 30, 2006:

Defeased Bonds Called

1985 Series A Adult Correctional Building Fund Projects

Defeased Bonds Retired

1985 Series A DiSalle Center
 1985 Series A Lausche Building
 1985 Series A Ocasek Building
 1985 Series A Riffe Center

6. SEGMENT INFORMATION

The Authority issued bonds to finance the construction of the five buildings to which it has title, as well as to finance capital construction for various Departments and Agencies of the State of Ohio. Investors in these bonds rely solely on revenues generated by individual activities for repayment. Summary financial information for individual activities is presented below.

CONDENSED STATEMENT OF NET ASSETS

	Rhodes State Office Tower	Lausche State Office Building	DiSalle Government Office Building	Ocasek Government Office Building	Riffe Government Center	State Correctional Facilities	State Transportation Facilities
ASSETS:							
Current assets	\$ 10,709	\$ 5,850	\$ 17,648	\$ 5,993	\$ 9,139	\$ 89,807	\$ 10,325
Other assets	17,610	2,129	4,841	1,147	6,712	740,399	18,223
Total assets	<u>28,319</u>	<u>7,979</u>	<u>22,489</u>	<u>7,140</u>	<u>15,851</u>	<u>830,206</u>	<u>28,548</u>
LIABILITIES:							
Current liabilities	5,862	3,547	10,597	2,327	4,194	89,476	10,286
Noncurrent liabilities	17,611	1,561	3,754	847	6,712	740,399	18,074
Total liabilities	<u>23,473</u>	<u>5,108</u>	<u>14,351</u>	<u>3,174</u>	<u>10,906</u>	<u>829,875</u>	<u>28,360</u>
Total net assets—(restricted)	<u>\$ 4,846</u>	<u>\$ 2,871</u>	<u>\$ 8,138</u>	<u>\$ 3,966</u>	<u>\$ 4,945</u>	<u>\$ 331</u>	<u>\$ 188</u>

	DAS Data Center	ODNR Fountain Square	Administrative Fund Projects	Juvenile Correctional Facilities	Highway Safety	Custodial Account	Total
ASSETS:							
Current assets	\$ 4,798	\$ 1,020	\$ 58,413	\$ 16,540	\$ 10,910	\$ 506	\$ 241,658
Other assets	8,520	2,007	696,131	152,390	68,429		1,718,538
Total assets	<u>13,318</u>	<u>3,027</u>	<u>754,544</u>	<u>168,930</u>	<u>79,339</u>	<u>506</u>	<u>1,960,196</u>
LIABILITIES:							
Current liabilities	4,780	1,005	58,201	16,031	10,862	506	217,674
Noncurrent liabilities	8,520	2,006	696,131	152,390	68,429		1,716,434
Total liabilities	<u>13,300</u>	<u>3,011</u>	<u>754,332</u>	<u>168,421</u>	<u>79,291</u>	<u>506</u>	<u>1,934,108</u>
Total net assets—(restricted)	<u>\$ 18</u>	<u>\$ 16</u>	<u>\$ 212</u>	<u>\$ 509</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 26,088</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Rhodes State Office Tower	Lausche State Office Building	DiSalle Government Office Building	Ocasek Government Office Building	Riffe Government Center	State Correctional Facilities	State Transportation Facilities
Rents	\$ 7,230	3,978	\$ 4,575	\$ 2,000	\$ 7,202	\$ 150	\$ 35
Lease interest	1,385	(583)	(1,281)	(312)	426	32,375	1,466
Other	307	171	480	256	601		
Operating expenses	<u>(7,188)</u>	<u>(3,836)</u>	<u>(4,535)</u>	<u>(2,118)</u>	<u>(7,048)</u>	<u>(94)</u>	<u>(34)</u>
Operating gain (loss)	1,734	(270)	(761)	(174)	1,181	32,431	1,467
Non-operating revenues (expenses):							
Earnings on investments	274	98	1,052	126	214	251	20
Interest expense and other	<u>(1,560)</u>	<u>(390)</u>	<u>(946)</u>	<u>(212)</u>	<u>(655)</u>	<u>(42,262)</u>	<u>(1,583)</u>
Change in net assets	<u>448</u>	<u>(562)</u>	<u>(655)</u>	<u>(260)</u>	<u>740</u>	<u>(9,580)</u>	<u>(96)</u>
Beginning net assets	<u>4,398</u>	<u>3,433</u>	<u>8,793</u>	<u>4,226</u>	<u>4,205</u>	<u>9,911</u>	<u>284</u>
Ending net assets	<u>\$ 4,846</u>	<u>\$ 2,871</u>	<u>\$ 8,138</u>	<u>\$ 3,966</u>	<u>\$ 4,945</u>	<u>\$ 331</u>	<u>\$ 188</u>

	DAS Data Center	ODNR Fountain Square	Administrative Fund Projects	Juvenile Correctional Facilities	Highway Safety	Custodial Account	Total
Rents	\$ 15	\$ 15	\$ 125	\$	\$ 20	\$ -	\$ 25,345
Lease interest	958	167	35,450	7,937	3,569		81,557
Other							1,815
Operating expenses	<u>(23)</u>	<u>(17)</u>	<u>(122)</u>	<u>(131)</u>	<u>(18)</u>		<u>(25,164)</u>
Operating gain (loss)	950	165	35,453	7,806	3,571		83,553
Non-operating revenues (expenses):							
Earnings on investments	10	2	220	62	18		2,347
Interest expense and other	<u>(967)</u>	<u>(167)</u>	<u>(35,631)</u>	<u>(7,960)</u>	<u>(3,583)</u>		<u>(95,916)</u>
Change in net assets	<u>(7)</u>	<u>-</u>	<u>42</u>	<u>(92)</u>	<u>6</u>	<u>-</u>	<u>(10,016)</u>
Beginning net assets	<u>25</u>	<u>16</u>	<u>170</u>	<u>601</u>	<u>42</u>	<u>-</u>	<u>36,104</u>
Ending net assets	<u>\$ 18</u>	<u>\$ 16</u>	<u>\$ 212</u>	<u>\$ 509</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 26,088</u>

CONDENSED STATEMENT OF CASH FLOWS

	Rhodes State Office Tower	Lausche State Office Building	DiSalle Government Office Building	Ocasek Government Office Building	Riffe Government Center	State Correctional Facilities	State Transportation Facilities
Net cash flows provided							
by (used in):							
Operating activities	\$ 1,297	\$ 548	\$ 664	\$ 294	\$ 1,067	\$ 36,107	\$ 1,556
Capital and related financing activities	(1,369)	(140)	(1,027)	(15)	(654)	(49,028)	(1,570)
Investing activities	<u>71</u>	<u>(408)</u>	<u>362</u>	<u>(279)</u>	<u>(401)</u>	<u>12,921</u>	<u>14</u>
Net increase (decrease) in cash and cash equivalents	(1)	-	(1)	-	12		-
Beginning cash and cash equivalents	<u>1</u>		<u>1</u>				
Ending cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$</u>	<u>\$ -</u>

	DAS Data Center	ODNR Fountain Square	Administrative Fund Projects	Juvenile Correctional Facilities	Highway Safety	Custodial Account	Total
Net cash flows provided							
by (used in):							
Operating activities	\$ 840	\$ 122	\$ 33,256	\$ 7,531	\$ 3,705	\$ (10)	\$ 86,977
Capital and related financing activities	(856)	(125)	(37,626)	(7,685)	(3,943)		(104,038)
Investing activities	<u>16</u>	<u>3</u>	<u>4,370</u>	<u>154</u>	<u>238</u>		<u>17,061</u>
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	(10)	
Beginning cash and cash equivalents						<u>514</u>	<u>516</u>
Ending cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 504</u>	<u>\$ 516</u>

7. DEFINED BENEFIT PENSION PLAN

Employees of the Authority participate in the Public Employees Retirement System of Ohio (PERS). PERS administers three separate pension plans as described below:

1. The Traditional Pension Plan-a cost sharing, multiple-employer defined benefit pension plan
2. The Member-Directed Plan-a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by PERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the PERS Board.

PERS issues a stand alone financial report, which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)-466-2085 or 1-800-222-PERS (7377).

Employee and employer contributions to PERS are established under the Ohio Revised Code and are based upon percentages of covered employee's gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. In fiscal year 2005 and fiscal year 2004 the employee and the employer contribution were 8.50% and 13.31% respectively, for all Authority employees. The Authority's required contributions to PERS for the years ended June 30, 2006, 2005, and 2004 were \$170,063, \$155,632, and \$158,648, respectively.

8. OTHER POSTEMPLOYMENT BENEFITS

PERS provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit under the Traditional and Combined plans. Health care coverage for disability recipients and primary survivor recipients is also available.

The health care coverage provided by the retirement system is considered an "Other Post Employment Benefit (OPEB)" as described in GASB Statement No. 12, Disclosure of Information on Post Employment Benefits Other Than Pension Benefits by State and Local Government Employers. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post retirement healthcare through their contributions to PERS. A portion of each employer contribution to PERS (13.31% of covered payroll) is set aside for the funding of post retirement health care. For the year ended June 30, 2005 that portion was 4.0% for all Authority employees.

The related assumptions and calculations were based on the PERS's latest actuarial review performed as of December 31, 2004. Included in the assumptions is the entry age normal actuarial cost method of

valuation to determine the present value of the OPEB with the difference between assumed and actual experience (actuarial gains and losses) becoming part of the unfunded actuarial accrued liability. Also all investments are carried at market value, and for valuation purposes include the smoothed market approach. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. In addition, the investment assumption rate for 2004 was 8.00%. Finally an annual increase of 4.0 %, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

Other Post Employment Benefits (OPEB) are advance funded on an actuarially determined basis. There are approximately 376,109 active contributing participants state-wide. The portion of the employer contribution actually made to fund post employment benefits can be determined by multiplying actual employer contributions times 0.3005 or in the Authority's case is equal to \$39,006. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 was \$10.8 billion. PERS' actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

Finally, PERS adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority purchases insurance coverage for these risks. In the past three years, there were no losses exceeding insurance coverage.

10. SUBSEQUENT EVENT

Subsequent to the year ended June 30, 2006, the Authority issued \$40.0 million in 2006A bonds with an average interest rate of 3.85%. The new bonds issued were Administrative Building Fund Project Bonds.

Subsequent to the year ended June 30, 2006, the Authority issued \$70.335 million in 2006B refunding bonds with an average interest rate of 3.93% to defease in substance \$71.665 million in principal and interest on the bonds being refunded. The bonds partially refunded were the 1998A and 2001A Administrative Building Fund Project Bonds. At June 30, 2006, the refunded bonds had an average interest rate of 5.27%. The refunding resulted in an economic gain of \$3.0 million.

SUPPLEMENTAL SCHEDULES

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF NET ASSETS

JUNE 30, 2006

(Dollars in thousands)

	Rhodes State Office Tower	Lausche State Office Building	DiSalle Government Office Building	Ocasek Government Office Building	Riffe Government Center	State Correctional Facilities	State Transporation Facilities
ASSETS							
CURRENT ASSETS:							
Cash—unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments—restricted	5,314	2,661	9,794	4,130	5,676	295	37
Receivables:							
Leases—current portion	5,175	3,055	6,925	1,650	3,185	79,100	9,875
Lease interest receivable	94	25	92	14	105	10,375	410
Interest	20	9	37	13	18	1	
Due from (to) other projects	(51)	10	18	19	(1)	36	3
Due from (to) other funds							
Accounts receivable	3	15	702	131	3		
Other Assets	154	75	80	36	141		
Cash—restricted					12		
Total current assets	10,709	5,850	17,648	5,993	9,139	89,807	10,325
NONCURRENT ASSETS:							
Leases receivable	17,536	2,123	4,831	1,142	6,679	736,241	18,138
Deferred debt issuance and other expense	74	6	10	5	33	4,158	85
TOTAL ASSETS	28,319	7,979	22,489	7,140	15,851	830,206	28,548
LIABILITIES:							
CURRENT LIABILITIES:							
Accounts payable and accrued liabilities:							
Restricted	593	467	3,580	663	904	1	1
Unrestricted							
Bonds payable—current portion	5,175	3,055	6,925	1,650	3,185	79,100	9,875
Other liabilities							
Accrued interest	94	25	92	14	105	10,375	410
Total current liabilities	5,862	3,547	10,597	2,327	4,194	89,476	10,286
NONCURRENT LIABILITIES—Bonds payable (net of unamortized premiums and discounts)							
	17,611	1,561	3,754	847	6,712	740,399	18,074
Total liabilities	23,473	5,108	14,351	3,174	10,906	829,875	28,360
TOTAL NET ASSETS - RESTRICTED	\$ 4,846	\$ 2,871	\$ 8,138	\$ 3,966	\$ 4,945	\$ 331	\$ 188

(Continued)

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF NET ASSETS

JUNE 30, 2006

(Dollars in thousands)

	<u>DAS Data Center</u>	<u>ODNR Fountain Square</u>	<u>Administrative Fund Projects</u>	<u>Juvenile Correctional Facilities</u>	<u>Highway Safety</u>	<u>Custodial Account</u>	<u>Total</u>
ASSETS							
CURRENT ASSETS:							
Cash—unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 504	\$ 504
Investments—restricted	19	16	224	599	50	32	28,847
Receivables:							
Leases—current portion	4,595	975	49,140	13,970	9,945		187,590
Lease interest receivable	184	29	9,052	1,967	916		23,263
Interest			1	2			101
Due from (to) other projects			(4)	2	(1)	(31)	
Due from (to) other funds						1	1
Accounts receivable							854
Other Assets							486
Cash—restricted							12
Total current assets	<u>4,798</u>	<u>1,020</u>	<u>58,413</u>	<u>16,540</u>	<u>10,910</u>	<u>506</u>	<u>241,658</u>
NONCURRENT ASSETS:							
Leases receivable	8,500	1,994	691,743	151,766	68,046		1,708,739
Deferred debt issuance and other expense	20	13	4,388	624	383		9,799
TOTAL ASSETS	<u>13,318</u>	<u>3,027</u>	<u>754,544</u>	<u>168,930</u>	<u>79,339</u>	<u>506</u>	<u>1,960,196</u>
LIABILITIES:							
CURRENT LIABILITIES:							
Accounts payable and accrued liabilities:							
Restricted	1	1	9	1	1	32	6,254
Unrestricted						155	155
Bonds payable—current portion	4,595	975	49,140	13,970	9,945		187,590
Other liabilities				93		319	412
Accrued interest	184	29	9,052	1,967	916		23,263
Total current liabilities	<u>4,780</u>	<u>1,005</u>	<u>58,201</u>	<u>16,031</u>	<u>10,862</u>	<u>506</u>	<u>217,674</u>
NONCURRENT LIABILITIES—Bonds payable (net of unamortized premiums and discounts)							
	<u>8,520</u>	<u>2,006</u>	<u>696,131</u>	<u>152,390</u>	<u>68,429</u>		<u>1,716,434</u>
Total liabilities	<u>13,300</u>	<u>3,011</u>	<u>754,332</u>	<u>168,421</u>	<u>79,291</u>	<u>506</u>	<u>1,934,108</u>
TOTAL NET ASSETS - RESTRICTED	<u>\$ 18</u>	<u>\$ 16</u>	<u>\$ 212</u>	<u>\$ 509</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 26,088</u>

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2006
 (Dollars in thousands)

	<u>Rhodes State Office Tower</u>	<u>Lausche State Office Building</u>	<u>DiSalle Government Office Building</u>	<u>Ocasek Government Office Building</u>	<u>Riffe Government Center</u>	<u>State Correctional Facilities</u>	<u>State Transportation Facilities</u>
OPERATING REVENUES:							
Rents	\$ 7,230	\$ 3,978	\$ 4,575	\$ 2,000	\$ 7,202	\$ 150	\$ 35
Lease interest	1,385	(583)	(1,281)	(312)	426	32,375	1,466
Other	<u>307</u>	<u>171</u>	<u>480</u>	<u>256</u>	<u>601</u>		
Total operating revenues	<u>8,922</u>	<u>3,566</u>	<u>3,774</u>	<u>1,944</u>	<u>8,229</u>	<u>32,525</u>	<u>1,501</u>
OPERATING EXPENSES:							
Building maintenance and operations	4,266	2,673	3,098	1,595	4,505		
Utilities	1,589	712	968	324	1,429		
General administration	885	164	170	163	692	94	34
Other	<u>448</u>	<u>287</u>	<u>299</u>	<u>36</u>	<u>422</u>		
Total operating expenses	<u>7,188</u>	<u>3,836</u>	<u>4,535</u>	<u>2,118</u>	<u>7,048</u>	<u>94</u>	<u>34</u>
OPERATING GAIN (LOSS)	1,734	(270)	(761)	(174)	1,181	32,431	1,467
NONOPERATING REVENUES (EXPENSES):							
Earnings on investments	274	98	1,052	126	214	251	20
Interest expense and other	<u>(1,560)</u>	<u>(390)</u>	<u>(946)</u>	<u>(212)</u>	<u>(655)</u>	<u>(42,262)</u>	<u>(1,583)</u>
Total nonoperating expenses	<u>(1,286)</u>	<u>(292)</u>	<u>106</u>	<u>(86)</u>	<u>(441)</u>	<u>(42,011)</u>	<u>(1,563)</u>
NET GAIN (LOSS)	448	(562)	(655)	(260)	740	(9,580)	(96)
NET ASSETS—Beginning of year	<u>4,398</u>	<u>3,433</u>	<u>8,793</u>	<u>4,226</u>	<u>4,205</u>	<u>9,911</u>	<u>284</u>
NET ASSETS—End of year	<u>\$ 4,846</u>	<u>\$ 2,871</u>	<u>\$ 8,138</u>	<u>\$ 3,966</u>	<u>\$ 4,945</u>	<u>\$ 331</u>	<u>\$ 188</u>

(Continued)

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2006
 (Dollars in thousands)

	<u>DAS Data Center</u>	<u>ODNR Fountain Square</u>	<u>Administrative Fund Projects</u>	<u>Juvenile Correctional Facilities</u>	<u>Highway Safety</u>	<u>Custodial Account</u>	<u>Total</u>
OPERATING REVENUES:							
Rents	\$ 15	\$ 15	\$ 125	\$	\$ 20	\$ -	\$ 25,345
Lease interest	958	167	35,450	7,937	3,569		81,557
Other							1,815
Total operating revenues	<u>973</u>	<u>182</u>	<u>35,575</u>	<u>7,937</u>	<u>3,589</u>		<u>108,717</u>
OPERATING EXPENSES:							
Building maintenance and operations							16,137
Utilities							5,022
General administration	23	17	122	131	18		2,513
Other							1,492
Total operating expenses	<u>23</u>	<u>17</u>	<u>122</u>	<u>131</u>	<u>18</u>		<u>25,164</u>
OPERATING GAIN (LOSS)	950	165	35,453	7,806	3,571	-	83,553
NONOPERATING REVENUES (EXPENSES):							
Earnings on investments	10	2	220	62	18		2,347
Interest expense and other	(967)	(167)	(35,631)	(7,960)	(3,583)		(95,916)
Total nonoperating expenses	<u>(957)</u>	<u>(165)</u>	<u>(35,411)</u>	<u>(7,898)</u>	<u>(3,565)</u>		<u>(93,569)</u>
NET GAIN (LOSS)	(7)		42	(92)	6	-	(10,016)
NET ASSETS—Beginning of year	<u>25</u>	<u>16</u>	<u>170</u>	<u>601</u>	<u>42</u>		<u>36,104</u>
NET ASSETS—End of year	<u>\$ 18</u>	<u>\$ 16</u>	<u>\$ 212</u>	<u>\$ 509</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 26,088</u>

See notes to financial statements.

(Concluded)

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(Dollars in thousands)

	<u>Rhodes State Office Tower</u>	<u>Lausche State Office Building</u>	<u>DiSalle Government Office Building</u>	<u>Ocasek Government Office Building</u>	<u>Riffe Government Center</u>	<u>State Correctional Facilities</u>	<u>State Transportation Facilities</u>
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash received from customers:							
State operating rent	\$ 7,027	\$ 4,141	\$ 1,692	\$ 1,484	\$ 6,897	\$ 150	\$ 35
Local operating rent			2,868	533			
Lease interest income receipts	<u>1,194</u>	<u>62</u>	<u>137</u>	<u>7</u>	<u>424</u>	<u>36,088</u>	<u>1,554</u>
Total cash received from customers	8,221	4,203	4,697	2,024	7,321	36,238	1,589
Cash received from quasi-external operating transactions with other funds							
Cash payments to suppliers for goods and services	(6,864)	(3,814)	(4,533)	(2,096)	(6,539)	(131)	(33)
Cash payments to employees for services	(404)				(314)		
Miscellaneous fees and commissions	<u>344</u>	<u>159</u>	<u>500</u>	<u>366</u>	<u>599</u>		
Net cash flows provided by operating activities	<u>1,297</u>	<u>548</u>	<u>664</u>	<u>294</u>	<u>1,067</u>	<u>36,107</u>	<u>1,556</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Principal payments on bonds	(4,930)	(1,420)	(3,010)	(810)	(13,145)	(83,168)	(11,375)
Interest paid	(1,369)	(140)	(457)	(72)	(654)	(49,028)	(1,570)
Principal receipts on capital leases	4,930	1,420	2,440	867	13,145	83,168	11,375
Refunding bond proceeds							38
Payment of debt issue costs							(38)
Other—net premium on sale of bonds							
Net cash flows provided by (used) in capital and related financing activities	<u>(1,369)</u>	<u>(140)</u>	<u>(1,027)</u>	<u>(15)</u>	<u>(654)</u>	<u>(49,028)</u>	<u>(1,570)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from sales and maturities of investments	20,035	5,897	7,884	3,424	22,204	132,289	13,025
Purchase of investments	(20,228)	(6,398)	(8,557)	(3,822)	(22,809)	(119,643)	(13,031)
Investment income received	<u>264</u>	<u>93</u>	<u>1,035</u>	<u>119</u>	<u>204</u>	<u>275</u>	<u>20</u>
Net cash flows provided by (used in) investing activities	<u>71</u>	<u>(408)</u>	<u>362</u>	<u>(279)</u>	<u>(401)</u>	<u>12,921</u>	<u>14</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1)		(1)		12		
RESTRICTED AND UNRESTRICTED—Beginning of year	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
RESTRICTED AND UNRESTRICTED—End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ -</u>

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(Dollars in thousands)

	<u>DAS Data Center</u>	<u>ODNR Fountain Square</u>	<u>Administrative Fund Projects</u>	<u>Juvenile Correctional Facilities</u>	<u>Highway Safety</u>	<u>Custodial Account</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash received from customers:							
State operating rent	\$ 15	\$ 15	\$ 125	\$	\$ 20	\$	\$ 21,601
Local operating rent							3,401
Lease interest income receipts	847	124	33,244	7,662	3,703		85,046
Total cash received from customers	<u>862</u>	<u>139</u>	<u>33,369</u>	<u>7,662</u>	<u>3,723</u>		110,048
Cash received from quasi-external operating transactions with other funds						1,270	1,270
Cash payments to suppliers for goods and services	(22)	(17)	(113)	(131)	(18)	(839)	(25,150)
Cash payments to employees for services						(441)	(1,159)
Miscellaneous fees and commissions							1,968
Net cash flows provided by operating activities	<u>840</u>	<u>122</u>	<u>33,256</u>	<u>7,531</u>	<u>3,705</u>	<u>(10)</u>	<u>86,977</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Principal payments on bonds	(4,345)	(880)	(46,840)	(12,135)	(9,495)		(191,553)
Interest paid	(856)	(125)	(37,626)	(7,947)	(3,943)		(103,787)
Principal receipts on capital leases	4,345	880	46,840	12,135	9,495		191,040
Refunding bond proceeds							38
Payment of debt issue costs							(38)
Other—net premium on sale of bonds				262			262
Net cash flows provided by (used) in capital and related financing activities	<u>(856)</u>	<u>(125)</u>	<u>(37,626)</u>	<u>(7,685)</u>	<u>(3,943)</u>		<u>(104,038)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from sales and maturities of investments	5,224	1,024	84,614	20,217	13,456		329,293
Purchase of investments	(5,218)	(1,023)	(80,470)	(20,127)	(13,236)		(314,562)
Investment income received	10	2	226	64	18		2,330
Net cash flows provided by (used in) investing activities	<u>16</u>	<u>3</u>	<u>4,370</u>	<u>154</u>	<u>238</u>		<u>17,061</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RESTRICTED AND UNRESTRICTED—Beginning of year						(10)	516
RESTRICTED AND UNRESTRICTED—End of year						<u>\$ 504</u>	<u>\$ 516</u>

See notes to financial statements.

(Concluded)

OHIO BUILDING AUTHORITY

SCHEDULE OF PROJECTS IN THE ENTERPRISE FUND—STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

(Dollars in thousands)

	<u>Rhodes State Office Tower</u>	<u>Lausche State Office Building</u>	<u>DiSalle Government Office Building</u>	<u>Ocasek Government Office Building</u>	<u>Riffe Government Center</u>	<u>State Correctional Facilities</u>	<u>State Transportation Facilities</u>
OPERATING GAIN (LOSS)	\$ 1,734	\$ (270)	\$ (761)	\$ (174)	\$ 1,181	\$ 32,431	\$ 1,467
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:							
Amortization of lease premium (discount)	(212)	625	1,662	325	(118)	2,872	(154)
Changes in assets and liabilities:							
(Increase) decrease in lease interest receivable	21	20	45	9	116	841	243
(Increase) decrease in account receivable—other	32	(13)	124	117	(2)		
(Increase) decrease in other assets	14	1	(2)	(1)	(1)	(1)	
Increase (decrease) in accounts payable and other liabilities	(292)	185	(404)	18	(109)	(36)	
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,297</u>	<u>\$ 548</u>	<u>\$ 664</u>	<u>\$ 294</u>	<u>\$ 1,067</u>	<u>\$ 36,107</u>	<u>\$ 1,556</u>
	<u>DAS Data Center</u>	<u>ODNR Fountain Square</u>	<u>Administrative Fund Projects</u>	<u>Juvenile Correctional Facilities</u>	<u>Highway Safety</u>	<u>Custodial Account</u>	<u>Total</u>
OPERATING GAIN (LOSS)	\$ 950	\$ 165	\$ 35,453	\$ 7,806	\$ 3,571	\$	\$ 83,553
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:							
Amortization of lease premium (discount)	(171)	(47)	(2,803)	(292)	11		1,698
Changes in assets and liabilities:							
(Increase) decrease in lease interest receivable	60	4	597	17	123		2,096
(Increase) decrease in account receivable—other							258
(Increase) decrease in other assets	1					9	20
Increase (decrease) in accounts payable and other liabilities			9			(19)	(648)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>\$ 840</u>	<u>\$ 122</u>	<u>\$ 33,256</u>	<u>\$ 7,531</u>	<u>\$ 3,705</u>	<u>\$ (10)</u>	<u>\$ 86,977</u>

See notes to financial statements.

(Concluded)



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Ohio Building Authority and
The Honorable Betty Montgomery, Auditor of the State of Ohio
Columbus, Ohio

We have audited the financial statements of the enterprise fund and the remaining fund information of the Ohio Building Authority (the "Authority"), a component unit of the State of Ohio, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's 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 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 Board of Trustees, management of the Authority, and the Auditor of State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
September 29, 2006



**Auditor of State
Betty Montgomery**

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OHIO BUILDING AUTHORITY

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 30, 2006**