



**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

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REPORT OF INDEPENDENT ACCOUNTANTS

Ohio Air Quality Development Authority
50 West Broad Street, Suite 1901
Columbus, Ohio 43215-5985

To the Authority:

We have audited the accompanying financial statements of the Ohio Air Quality Development Authority (the Authority) as of and for the year ended December 31, 2000. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ohio Air Quality Development Authority as of December 31, 2000, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2001 on our consideration of the Ohio Air Quality Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

JIM PETRO
Auditor of State

April 13, 2001

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**BALANCE SHEET
DECEMBER 31, 2000**

ASSETS

Cash and Cash Equivalents (Note 3)	\$3,546,174
Interest Receivable	11,390
Accounts Receivable	60,288
Office Furniture and Fixtures, net (Note 2)	<u>9,955</u>
Total Assets	<u><u>\$3,627,807</u></u>

LIABILITIES AND RETAINED EARNINGS

Accounts Payable	\$66,993
Accrued Payroll	<u>39,893</u>
Total Liabilities	106,886
Retained Earnings	<u>3,520,921</u>
Total Liabilities and Retained Earnings	<u><u>\$3,627,807</u></u>

The accompanying notes are an integral part of these financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2000**

Operating Revenues:

Project Administration Fees	\$437,218
Small Business Ombudsman Fees	209,956
Small Business Assistance Program Fees	<u>181,538</u>
Total Operating Revenues	<u>828,712</u>

Operating Expenses:

Salaries and employee benefits	324,375
Professional fees	23,347
Travel	17,574
Research	320,221
Office supplies and other administrative expenses	167,752
Depreciation expense	8,009
Rental expense	<u>33,725</u>
Total Operating Expenses	<u>895,003</u>

Operating Income (Loss) (66,291)

Non-Operating Revenue:

Interest Income	<u>131,981</u>
Net Income	65,690
Retained Earnings, January 1, 2000	<u>3,455,231</u>
Retained Earnings, December 31, 2000	<u><u>\$3,520,921</u></u>

The accompanying notes are an integral part of these financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2000**

Cash flows from operating activities:

Cash received from customers	\$388,824
Cash received from Ohio EPA	391,494
Cash payments to employees	(344,965)
Cash payments to suppliers	(464,525)
Other operating cash payments	<u>(33,725)</u>
Net cash flows provided (used) by operating activities	<u>(62,897)</u>

Cash flows from investing activities:

Interest income received	<u>130,009</u>
Net cash flows provided (used) by investing activities	<u>130,009</u>
Net increase (decrease) in cash and cash equivalents	67,112
Cash and cash equivalents, beginning of year	<u>3,479,062</u>
Cash and cash equivalents, end of year	<u><u>\$3,546,174</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	(\$66,291)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	8,009
Changes in assets and liabilities:	
Increase in accounts receivable	(48,394)
Increase in accounts payable	46,795
Decrease in accrued payroll	<u>(3,016)</u>
Net cash flows provided (used) by operating activities	<u><u>(\$62,897)</u></u>

The accompanying notes are an integral part of these financial statements.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2000

1. GENERAL INFORMATION

Introduction

The Ohio Air Quality Development Authority (the Authority) was created by amended House Bill No. 963, effective June 1, 1970, to provide for the conservation of air as a natural resource of the State and to prevent or abate the pollution thereof, to provide for the comfort, health, safety, and general welfare of all employees, as well as other inhabitants of the State, to create jobs and employment opportunities, and to improve the economic welfare of the people by providing for the acquisition, construction, maintenance, repair, and operation of air quality projects. The Authority is a body corporate and politic in the State of Ohio and has no stockholders nor equity holders. The governing body consists of seven members, of which no more than three can be from the same political party. Five public members are appointed by the Governor with the advice and consent of the Senate. The two remaining members are the directors of the Ohio Environmental Protection Agency (Ohio EPA) and the Ohio Department of Health and serve in an ex-officio capacity. Under the provisions of the act, air quality revenue bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof.

On August 1, 1975, Senate Bill No. 104 amended the Ohio Revised Code to allow the Authority to issue revenue bonds for public utilities and other facilities for control of air and thermal pollution whether or not such facilities result in the creation or preservation of jobs. This bill also provides that conditional or installment sales may be authorized and permit that the revenue bonds or notes bear a variable rate of interest changing from time to time according to a formula prescribed in the bond or note agreement.

Method of Operation

The Ohio Air Quality Development Authority may at any time issue revenue bonds and notes of the State in such principle amounts as, in the opinion of the Authority, are necessary for the purpose of paying any part of the cost of one or more air quality projects or parts thereof. The Authority may at any time issue renewal notes, issue bonds to pay such notes and, whenever it deems refunding expedient, refund any bonds by the issuance of air quality revenue refunding bonds of the State, whether the bonds to be refunded have or have not matured, and issue bonds partly to refund bonds then outstanding, and partly for any other authorized purpose. The renewal notes, bonds, and air quality revenue refunding bonds are not obligations of the State of Ohio, but are backed by specific streams of revenue and additional collateralization as deemed necessary at the time of issuance. The unaudited aggregate amount of principle outstanding as of December 31, 2000 was approximately \$1,941,959,000. In accordance with Ohio Revised Code Chapter 3706, the Authority is also charged with the legal and contractual obligation to administer the outstanding bonds issued until their respective maturities and funds are maintained to meet its legal and contractual obligations.

Agreements between the borrower, the Authority and the purchaser determine the retirement period of the bonds. Interest rates are determined by existing bond market conditions at the time of sale.

Small Business Programs

During fiscal year 1995, the Authority began two operations, both of which were created by Senate Bill No. 153, effective October 19, 1993. The operations are described in Ohio Revised Code Section 3706.19.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2000

(Continued)

1. GENERAL INFORMATION (Continued)

Small Business Programs (Continued)

The first operation is the office of Ombudsman for the small business stationary source technical and environmental compliance assistance program that was created in Ohio Revised Code Section 3704.18. The Ombudsman's duties include facilitating and promoting the participation of small businesses in compliance with the Federal Clean Air Act, provide and disseminate information about air pollution requirements and control technologies, conduct studies to evaluate the impacts of the Federal Clean Air Act on Ohio's economy, and other related duties. The Executive Director of the Authority and the director of the Ohio EPA establish annual budgets which are funded by monies set aside in the Ohio EPA's budget.

The second operation is the Small Business Assistance Fund (SBAF), which is funded by monies set aside in the Ohio EPA's budget. The Ombudsman may use the monies in the SBAF solely to provide financial assistance to small businesses that have one hundred or fewer employees and that are having financial difficulty complying with the Clean Air Act Amendments of 1990.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Ohio Air Quality Development Authority is disclosed as a related organization in the State of Ohio's Comprehensive Annual Financial Report. The Authority's management believes these financial statements present all activities for which the Authority is financially responsible.

B. Basis of Accounting

Fund accounting uses a self-balancing set of funds to account for all activity. An enterprise fund is part of the proprietary group of funds within a governmental organization. In an enterprise fund, operations of the enterprise are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is to provide goods or services to the general public on a continuing basis while recovering the cost through the sales price. This fund type is accounted for using the full accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions, events, and circumstances in the period in which they occur rather than in the period in which cash is received or paid by the organization. The activities of the Authority are reported as an enterprise fund since the cost of issuing revenue bonds and notes for air quality projects and other activities will be recovered through revenues from the entity.

C. Stance on Financial Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Authority will not adopt any FASB Statements and Interpretations issued after November 30, 1989.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

Cash and cash equivalents of the Authority include amounts on deposit in two separate accounts with the Treasurer of State and funds held in a money market account at a financial institution. For the purpose of the Statement of Cash Flows, the Authority considers all deposits with a maturity of three months or less when purchased, which includes the above three accounts, to be cash equivalents, as defined in GASB Statement No. 9.

E. Office Furniture and Fixtures

Fixed assets are recorded at cost and capitalized if the purchase price is \$300 or more. Depreciation is computed using the straight-line method over lives ranging from three to eight years. The Authority's fixed assets and accumulated depreciation balances at December 31, 2000, was \$81,894 and \$71,939, respectively.

F. Revenue

Administrative Fees

The Authority charges the borrower an administrative fee based on the size of the bond issue. From these administrative fees, the Authority pays all operating expenses for maintaining an office and full-time staff. In addition, the Authority engages in a research and development program that is funded from these administrative fees. The Authority recognized the fees as revenue on the date the bond or note is sold which approximates the date the fee is received, since the fee is not legally due the Authority until that time.

Other Fees and Income

The Authority receives reimbursements from the Ohio Environmental Protection Agency for the cost of operating the two small business programs described earlier. In addition, the Authority earns interest income from money market and other funds held in trust or on deposit with the Treasurer of State. The Authority recognized this revenue in the period in which it is earned and becomes measurable.

G. Accrued Payroll

Accrued payroll consists of compensated absences and wages payable owed to Authority employees as of December 31, 2000. The wages payable, accumulated vacation, and sick time amounted to \$14,590; \$15,533; and \$9,770, respectively.

The State of Ohio, which governs the Authority employees' leave benefits and policies, pays compensation to separated employees for leave balances accumulated during the employee's term of service. In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, the Authority calculates the compensated absences liability on employees' fiscal year-end balances for vacation, sick, and compensatory leaves.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Deposits with Treasurer of State: The Authority deposits cash with the Treasurer of State for purposes of reimbursement of the Authority's payroll costs which are paid through the State of Ohio's central accounting system. At December 31, 2000 the Authority had \$5,398 on deposit with the Treasurer of State. The Authority does not require these to be collateralized but are fully collateralized with the Treasurer.

Small Business Deposits with Treasurer of State: The Authority maintains small business funds with the Treasurer of State for the purpose of funding the Small Business Ombudsman and the Small Business Assistance programs described in the General Information section of the Notes. At December 31, 2000, the balances for the Small Business Ombudsman and the Small Business Assistance programs were \$302,244 and \$1,045,251, respectively. The Authority does not require these to be collateralized but are fully collateralized with the Treasurer.

Bank Money Market Funds: The majority of the Authority's cash deposits were held in a money market account that invests in U.S. Treasury instruments (bills, notes, bonds). While the money market account itself is not federally insured, the underlying securities are backed by the full faith and credit of the U.S. Government. The realization of these deposits depends upon the financial stability of the financial institution with which the agency conducts business. At December 31, 2000, the Authority had \$2,193,281 in money market funds held in a trust account in the name of the Authority. The Authority does not require these to be collateralized or categorized.

4. PENSION PLAN

All full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. 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.

Required employee and employer contributions to PERS are established under the Ohio Revised Code and are based on percentages of covered employees' gross salaries, with the contribution rate percentages being calculated annually by the Retirement Board's actuaries. The employee contribution rate is 8.5 percent of covered payroll costs; the employer contribution rate was 13.31 percent of the covered payroll costs for the period January 1, 2000 to June 30, 2000. Effective July 1, 2000 to December 31, 2000, the employer's required contribution to PERS for regular employees was reduced from 13.31 percent to 7.99 percent. Employees' required contribution rates remain unchanged. This temporary rate reduction was made possible by higher-than-anticipated returns on investments. Employer contributions required and made to PERS for the current and previous two years were:

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

4. PENSION PLAN (Continued)

Calendar Year Ended December 31	Covered Payroll	Rate	Employer Contribution
2000	\$216,750	13.31% / 7.99%	\$22,480
1999	\$193,524	13.31%	\$25,758
1998	\$204,102	13.31%	\$27,166

5. OTHER POST-EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2000 employer contribution rate was rolled back to 10.65 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.31 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 401,339. The Authority's actual contributions for 2000 which were used to fund other postemployment benefits were \$9,077. PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

6. LEASES

The Authority has entered into lease agreements for office space, computers, and a copier. Leased property not having elements of ownership are classified as operating leases and are recorded as expenditures when payable. Total operating lease expense for 2000 was \$38,050. At December 31, 2000, the Authority had future minimum lease payments under operating leases with a remaining term in excess of one year as follows:

2001	\$27,214
2002	10,170
2003	6,384
2004	2,597
2005	<u>1,948</u>
Total	\$48,313

7. COMMITMENTS

As of December 31, 2000, the Authority had commitments of approximately \$130,000 for research grants due throughout calendar year 2001 to develop education programs with various business associations in Ohio. These grants will be paid from administrative fee revenues and small business program funds, depending on the type of project.



**STATE OF OHIO
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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Ohio Air Quality Development Authority
50 West Broad Street, Suite 1901
Columbus, Ohio 43215-5985

We have audited the financial statements of Ohio Air Quality Development Authority, (the Authority) as of and for the year ended December 31, 2000, and have issued our report thereon dated April 13, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 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 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 weakness 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.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter dated April 13, 2001.

This report is intended for the information and use of the Authority, the Authority's Board which serves as the equivalent to an audit committee, management of the State of Ohio and the Ohio Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

April 13, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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OHIO AIR QUALITY DEVELOPMENT 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
JUNE 19, 2001**