# OHIO AIR QUALITY DEVELOPMENT AUTHORITY
# FRANKLIN COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED DECEMBER 31, 2001

**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, 2001. 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 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.

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, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, during the year ended December 31, 2001, the Authority adopted Governmental Accounting Standards Board Statements 34 and 37.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002, 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.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

JIM PETRO
Auditor of State

September 27, 2002

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**Ohio Air Quality Development Authority**
**Management's Discussion and Analysis**
**December 31, 2001**
**UNAUDITED**

This section of the Ohio Air Quality Development Authority ("OAQDA") annual financial report presents our discussion and analysis of OAQDA's financial performance during the fiscal year ending December 31, 2001. Please read it in conjunction with OAQDA's financial statements and accompanying notes.

OAQDA is a self-supporting entity that is disclosed as a related organization in the State of Ohio's Comprehensive Annual Financial Report. It uses enterprise fund reporting because operations of the enterprise are financed and operated in a manner similar to private business enterprises; 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 fees. The statements are presented using full accrual accounting; i.e., the financial effects of transactions, events and circumstances are recorded in the period in which they occur rather than in the period in which cash is received or paid.

## Financial Highlights

- OAQDA's total net assets decreased $71,556 (or 1.9%).
- Cash and cash equivalents decreased $82,769 (or 2.3%).
- Operating revenues decreased $128,242 (or 15.4%).
- Operating expenses decreased $78,374 (or 8.7%).

## Financial Analysis of OAQDA

The elements key to understanding OAQDA's year end status can be found in the following revenue and expense table.

| | | | 2001 | 2000 | Change |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| | | | | | |
| | Project administration fees | | 269,660 | 437,218 | -38.32% |
| | Small Business Ombudsman Fees | | 191,377 | 209,956 | -8.85% |
| | Small Business Assistance Program Fees | | 231,888 | 181,538 | 27.73% |
| | Other revenue | | 7,544 | 0 | -- |
| | | Total Operating Revenues | 700,470 | 828,712 | -15.47% |
| | | | | | |
| **Operating Expenses** | | | | | |
| | Salaries and benefits | | 371,626 | 324,375 | 14.56% |
| | Professional fees | | 16,400 | 23,347 | -29.75% |
| | Travel | | 17,780 | 17,574 | 1.17% |
| | Research | | 133,479 | 320,221 | -58.31% |
| | State Assistance | | 45,040 | | |
| | Office Supplies & other administrative | | 189,803 | 167,752 | 13.14% |
| | Depreciation | | 5,141 | 8,009 | -35.81% |

| | | | | | |
|---|---|---|---|---|---|
| | Rental Expense | | 37,359 | 33,725 | 10.77% |
| | | Total Operating Expense | 816,629 | 895,003 | -8.75% |
| | | | | | |
| | | Operating Income (Loss) | (116,159) | (66,291) | 75.22% |
| | | | | | |
| **Non-operating Revenue** | | | | | |
| | Interest income | | 69,804 | 131,981 | -47.11% |
| **Income (loss)** | | | (46,355) | 65,690 | -170% |

The OAQDA collects administrative fees when it issues revenue bonds; those fees are intended to cover administrative expenses over the life of each bond issue and are based upon the size of the issue. The year 2001 saw a significant decrease in administrative fees due to a combination of two factors: the first was the economic downturn in the last quarter of the year (post September 11) which inhibited investment and the second was the number of small business projects which generate smaller fees. In addition, the multiple decreases in interest rates resulted in a 47% decline in interest income.

The OAQDA reacted to reduced revenues by curtailing commitments to new research programs, resulting in a 58% reduction in that expense category. However, staff salary increases and increases in the costs of the benefits package negotiated by the State of Ohio eroded some of that savings.

A review of prior years' financial statements reveals that fluctuations, sometimes of a significant nature, in administrative fee revenue are a recurring, if not predictable, pattern. During 2001, a number of projects requested inducement resolutions for bond financing indicating a serious intention to pursue potential future financing.

These changes in revenues and expenditures contributed changes in net asset balances. Total assets decreased $61,556, or 1.7%, primarily from a reduction in cash equivalents which was caused by a decrease in administrative fees. Total liabilities decreased $25,201, or 23.6%, due to a decrease in accounts payable. Accounts payable decreased by 47.8% (or, $32,032) as the OAQDA reduced nonfixed expenditures to reflect decreased revenues. Accrued Payroll saw a 17% (or $6,831) increase, in part caused by higher compensations costs and in part caused by the way in which the payroll period split between calendar years. Interest Receivable decreased by 82.31% ($9,375) largely due to lower interest rates. Changes in both Accounts Receivable (38.47% increase) and Prepaid Expenses (increase of 100%) were due to the timing of transactions in the last quarter. Capital assets decreased $5,141, or 49.4%, as a result of depreciation. Net assets deceased $46,355, or 1.3%, partially due to increased payroll charges previously mentioned and a decrease in operating revenues. Restricted Net Assets increased 100% due to new GASB requirements.

This financial report is designed to provide Ohio citizens and our customers and clients with a general overview of OAQDA's finances and to demonstrate OAQDA's accountability. If you have questions about this report, contact the Ohio Air Quality Development Authority, 50 W. Broad St., #1901, Columbus, OH 43215.

## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

### STATEMENT OF NET ASSETS
### FOR THE YEAR ENDED DECEMBER 31, 2001

| | |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and Cash Equivalents | $3,463,405 |
| Accounts Receivable from Customers | $83,481 |
| Interest Receivable | $2,015 |
| Prepaid Expenses | $2,083 |
| Noncurrent Assets: | |
| Capital Assets, Net of Accumulated Depreciation | $5,266 |
| Total Assets | $3,556,251 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts Payable to Suppliers | $34,961 |
| Wages Payable | $12,252 |
| Noncurrent Liabilities: | |
| Compensated Absences | $34,472 |
| Total Liabilities | $81,685 |
| **NET ASSETS** | |
| Invested in Capital Assets, Net of Related Debt | $5,266 |
| Unrestricted | $3,469,300 |
| Total Net Assets | $3,474,566 |

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

## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED DECEMBER 31, 2001

| | |
|---|---|
| **OPERATING REVENUES** | |
| Project Administration Fees | $269,660 |
| Small Business Obudsman Fees | $191,377 |
| Small Business Assistance Program Fees | $231,888 |
| Other Revenues | $7,544 |
| Total Operating Revenue | $700,470 |
| **OPERATING EXPENSES** | |
| Salaries and Employee Benefits | $371,626 |
| Professional Fees | $16,400 |
| Travel | $17,780 |
| Research | $133,479 |
| State Assistance | $45,040 |
| Office supplies and other administrative expenses | $189,803 |
| Depreciation | $5,141 |
| Rental Expense | $37,359 |
| Total Operating Expenses | $816,629 |
| Operating Income (Loss) | ($116,159) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Interest Income | $69,804 |
| Income (loss) | ($46,355) |
| Total Net Assets - beginning | $3,520,921 |
| Total Net Assets - ending | $3,474,566 |

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

## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2001

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from customers | $255,072 |
| Cash received from OEPA | $423,265 |
| Payments to suppliers | ($430,013) |
| Payments to employees | ($364,795) |
| Other cash payments | ($34,087) |
| Net cash provided (used) by operating activities | ($150,557) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received | $67,789 |
| Net increase (decrease) in cash equivalents | ($82,769) |
| Balances - beginning of year | $3,546,174 |
| Balances - end of year | $3,463,405 |

| | |
|---|---|
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | |
| Operating income (loss) | ($116,159) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | $5,141 |
| Changes in assets and liabilities: | |
| Increase in accounts receivable | ($23,193) |
| Increase in prepaid expenses | ($2,083) |
| Decrease in interest receivable | $9,375 |
| Decrease in accounts payable | ($30,469) |
| Increase in accrued payroll | $6,831 |
| Net cash provided (used) by operating activities | ($150,557) |

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

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## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 2001

### 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.

#### Conduit Debt Obligations

The Ohio Air Quality Development Authority may at any time issue revenue bonds and notes of the State in such principal 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 issued under the Authority's name; however, they are not obligations of the Authority or 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 principal outstanding as of December 31, 2001 was approximately $1,689,145,000.

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.

## 1. GENERAL INFORMATION (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) that was authorized by Ohio Revised Code Section 3704.19. The SBAF 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 economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The activities of the Authority are reported in 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. Application of Financial Accounting Standards Board (FASB) Statements

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 has not adopted any FASB Statements and Interpretations issued after November 30, 1989.

## 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. Capital Assets

Capital 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 capital assets and accumulated depreciation balances at December 31, 2001, was $86,375 and $81,109, 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.

Classification
The Authority considers bond administrative fees and reimbursements from the Ohio Environmental Protection Agency as operating revenues. Nonoperating revenues consist of interest earned from money market accounts and interest earned on monies held by the Treasurer of State of Ohio.

### G. Accrued Wages

Accrued wages consists of wages payable to Authority employees as of December 31, 2001. The accrued wages balance consists of $12,252 owed to employees for worked performed during the fiscal year.

### H. Compensated Absences

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 using the vesting method. As of December 31, 2001, the Authority has a compensated absence balance of $34,472.

### I. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance for employee theft in the amount of $250,000 per occurrence.

There have been no significant reductions in insurance coverage from the prior year. The amount of settlements has not exceeded insurance coverage in each of the past three fiscal years.

## 3. CASH AND CASH EQUIVALENTS

At fiscal year end, the carrying amount of the Authority's deposits was $3,463,405 and the bank balance was $3,464,571. The bank balance consists 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, 2001 the Authority had $3,056 on deposit with the Treasurer of State.

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, 2001, the balances for the Small Business Ombudsman and the Small Business Assistance programs were $341,758 and $1,197,097, respectively.

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, 2001, the Authority had $1,922,660 in money market funds held in a trust account in the name of the Authority. The money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form.

## 4. PENSION PLAN

All full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan 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 was 8.5 percent of covered payroll costs and the employer contribution rate was

## 4. PENSION PLAN (continued)

13.55 percent of the covered payroll costs for the period January 1, 2001 to December 31, 2001. Total required employer contributions were $31,910, $22,480, and $25,758 for the years ending December 31, 2001, 2000, and 1999, respectively, and are equal to 100% of the amount billed to, and paid by, the Authority.

## 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 healthcare coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Governmental Employers*. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund postretirement healthcare through their contributions to PERS. A portion of each employer contribution is set aside for the funding of postretirement healthcare. The 2001 employer contribution rate was 13.31% of covered payroll; 4.30% was the portion used to fund health care for the year.

OPEB are advance-funded using the entry-age, normal cost method, through employer contributions and investment earnings thereon. Significant actuarial assumptions, based on the latest actuarial review performed as of December 31, 2000, included a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually 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. Under this approach, assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 411,076. The Authority's actual contributions for 2001 which were used to fund other post-employment benefits were $10,310. The net assets available for payment of benefits at December 31, 2000, were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were $14,364.60 million and $2,628.7 million, respectively.

## 6. OPERATING LEASES

The Authority has entered into lease agreements for office space, computers, copier and a postlink system. Leased properties not having the elements of ownership are classified as operating leases and are recorded as expenses when payable. Total operating lease expense for 2001 was $47,747. At December 31, 2001 the Authority had future minimum lease payments under operating leases with a remaining term in excess of one year as follows:

| | |
|---|---|
| 2002 | 44,418 |
| 2003 | 23,725 |
| 2004 | 3,033 |
| 2005 | 1,837 |
| 2006 | 0 |
| Total | 73,013 |

## 7. COMMITMENTS

As of December 31, 2001, the Authority had commitments of approximately $128,589 for research grants due throughout calendar year 2002 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.

## 8. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2001 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital Assets: | | | | |
| Office Equipment | $86,375 | $0 | $0 | $86,375 |
| Less accumulated depreciation for: | | | | |
| Office Equipment | $(75,968) | $(5,141) | $0 | $(81,109) |
| Total capital assets, net | $10,407 | $0 | $(5,141) | $5,266 |

## 9. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year 2001, the Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The adoption of GASB Statement No. 34 required the Authority to make several changes to the presentation of its basic financial statements in addition to requiring the presentation of the Authority's Management Discussion and Analysis ("MD&A"). MD&A is considered to be required supplemental data and precedes the financial statements.

To conform to the requirements of GASB 34, the following changes have been made to the Authority's financial statements:

- Retained Earnings have been reclassified into the following categories of Net Assets:
  - Invested in capital assets, net of related debt
  - Restricted
  - Unrestricted
- The Balance Sheet has been renamed the Statement of Net Assets and is presented in a classified format
- The Statement of Revenues, Expenses, and Changes in Fund Net Assets has been formatted to report operating and nonoperating revenues and expenses

During 2001, the Authority also implemented GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis* which clarified certain provisions of Statement No. 34.

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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, 2001, and have issued our report thereon dated September 27, 2002, wherein we noted the Authority adopted Governmental Accounting Standards Board Statements Nos. 34 and 37 for the year ended December 31, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the 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 September 27, 2002.

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

September 27, 2002

**STATE OF OHIO**
**OFFICE OF THE AUDITOR**
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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**
**NOVEMBER 26, 2002**