



OHIO AIR QUALITY DEVELOPMENT AUTHORITY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2007



Mary Taylor, CPA
Auditor of State

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Governmental Fund Statements:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Proprietary Fund Statements:	
Statement of Net Assets	12
Statement of Revenues, Expenses and Changes in Fund Balances	13
Statement of Cash Flows.....	14
Notes to the Financial Statements	15
Supplementary Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for Coal Development Funds	25
Notes to the Required Supplementary Information	26
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27
Schedule of Findings.....	29

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ohio Air Quality Development Authority
50 W. Broad Street, Suite 1718
Columbus, Ohio 43215

To the Authority:

We have audited the accompanying financial statements of the governmental activities and business-type activities of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Authority's financial statements are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental funds and business-type activities of the Authority that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2008 and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the Ohio Air Quality Development Authority as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the budgetary comparison information are not required parts of the financial statements, but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 19, 2008

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Unaudited)

This discussion and analysis section of the Ohio Air Quality Development Authority (OAQDA) annual financial report provides an overall review of OAQDA's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at OAQDA's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of OAQDA's financial performance.

OAQDA is responsible for the administration of four programs: Facility Development and Financing; the Clean Air Resource Center; the Energy Strategy Development Program; and, the Ohio Coal Development Office. The Facility Development and the Clean Air Resource Center are combined in the air quality development activity which is reported as an enterprise fund. Facility Development and Financing is a self-supporting activity which provides for the acquisition, construction, maintenance, repair, and operation of air quality projects within the State of Ohio. The Clean Air Resource Center provides assistance to small businesses as they comply with requirements of the Clean Air Act; it is supported through a transfer of funds from the Ohio Environmental Protection Agency. Those funds are from Title V air permit fees. The Energy Strategy Development Program is presented as a separate enterprise fund. The coal development activity is a State sponsored activity which provides funding for research and development projects to develop suitable uses for coal mined within the State. The aggregate of these programs is reported as a discretely presented component unit in the State of Ohio's comprehensive annual financial report (CAFR). Funding for the coal development activity is provided through the proceeds of general obligation bonds of the State of Ohio. These bonds, and annual debt service payments required to retire these bonds, are reported by the State of Ohio and therefore not included within the financial statements of OAQDA's coal development activity.

Financial Highlights

Key financial highlights for the year ended December 31, 2007 are as follows:

- Total net assets of OAQDA increased by \$4.4 million in 2007 due to the receipt of additional bond proceeds in the coal development activity in 2007. During 2007 the air quality activity continued to show strong revenues associated with bond issues while operating costs remain lower than revenues reported.
- The Coal Development activity received approximately \$10.0 million in total revenue during 2007 to finance research and development projects related to more effective and efficient uses for Ohio coal. This amount was in addition to the \$13 million received in 2004 to fund these projects. During 2007 and 2006, grant payments of \$6.7 million and \$3.7 million, respectively, have been made to various programs and projects. Another \$6.5 million in program and projects have been approved and funding will occur as cash is needed.
- 2007 is the first year the Energy Strategy Development Program is reported as an enterprise fund of OAQDA. Even with this new program, the expenses of the business-type activities increased by only \$35,000. The Air Quality Development activity report expenses of \$899,024 and revenues of \$2.4 million. The \$8.6 million ending net assets of the activity is almost ten times the amount of the reported annual expenses.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the OAQDA as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Unaudited)

The Statement of Net Assets and Statement of Activities provide information about the activities of OAQDA as a whole, presenting both an aggregated view of OAQDA's finances and a longer-term view of those statements. Fund financial statements provide the next level of detail. For the governmental fund, these financial statements tell how services were financed in the short-term as well as the amount of funds available for future spending.

Reporting OAQDA as a Whole

Statement of Net Assets and the Statement of Activities

The statements of net assets and activities look at OAQDA as a whole, including all financial transactions, and answer the question, "How did we do financially during 2007?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report OAQDA's net assets and changes in those assets. This change informs the reader whether OAQDA's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements should take into account non-financial factors that also impact the OAQDA's financial well being.

In the Statement of Net Assets and the Statement of Activities, the financial information of the OAQDA is divided into two kinds of activities:

- Governmental Activity – The financial activity of the coal development activity is reported as a governmental activity since the funding for this activity is provided by the State of Ohio.
- Business-Type Activities – The financial activity of the air quality development and energy strategy development activities are reported as enterprise funds as the intent of these programs is to recoup operational costs through the user fees or agency assessments.

Reporting OAQDA's Funds

Fund Financial Statements

The activities of OAQDA are reported in three separate funds, one governmental fund and two enterprise funds, which are described in more detail below:

Governmental Fund

The coal development activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the coal development activity. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements, however since the coal development activity has no long term assets or liabilities, no such reconciliation is necessary.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Unaudited)

Proprietary Funds

Since the air quality development and energy strategy development activities charges its clients for the services it provides, or through agreement assesses other state agencies, with the intent of recouping operating costs, these activities are reported as an enterprise funds. Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The OAQDA as a Whole

Recall that the Statement of Net Assets provides the perspective of the OAQDA as a whole. In the case of the OAQDA, assets exceeded liabilities by a total of \$15.6 million at December 31, 2007.

Table 1 provides a summary of the OAQDA's net assets for 2007 compared to 2006:

TABLE 1
NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<i>Assets:</i>						
Current and Other Assets	\$ 7,407	\$ 4,177	\$ 8,813	\$ 7,234	\$ 16,220	\$ 11,411
Capital Assets, Net	-	-	22	19	22	19
Total Assets	<u>7,407</u>	<u>4,177</u>	<u>8,835</u>	<u>7,253</u>	<u>16,242</u>	<u>11,430</u>
<i>Liabilities</i>						
Current and Other Liabilities	<u>479</u>	<u>47</u>	<u>150</u>	<u>142</u>	<u>629</u>	<u>189</u>
Total Liabilities	<u>479</u>	<u>47</u>	<u>150</u>	<u>142</u>	<u>629</u>	<u>189</u>
<i>Net Assets:</i>						
Invested in Capital Assets	-	-	22	19	22	19
<i>Restricted:</i>						
Coal Research & Development	6,928	4,130	-	-	6,928	4,130
Unrestricted	<u>-</u>	<u>-</u>	<u>8,663</u>	<u>7,092</u>	<u>8,663</u>	<u>7,092</u>
Net Assets	<u>\$ 6,928</u>	<u>\$ 4,130</u>	<u>\$ 8,685</u>	<u>\$ 7,111</u>	<u>\$ 15,613</u>	<u>\$ 11,241</u>

As displayed in Table 1, the OAQDA reported \$15.6 million in total net assets at December 31, 2007 compared with the \$11.2 million reported for the prior year. Of the \$15.6 million of net assets, \$6.9 million was attributed to State of Ohio financed coal development grant programs and the remaining \$8.7 million is reported in conjunction with the two business-type activities, Air Quality Development activity and Energy Strategy Development Program. The increase in net assets of the Coal Development – governmental activity – is due to the OAQDA receiving additional bond proceeds from the State of Ohio to finance on-going and future grant projects approved by OAQDA. Debt is issued as needed and therefore the cash balance and net assets associated with the Coal Development Grant funds will fluctuate as grant payments are made or bonds are issued. The increase in the business-type activities was due to the addition of the Energy Strategy Development Program as well as the fees generated by the Air Quality Development activity far exceeding the expenses of the program. As fees are earned when loans are closed on, this revenue source will also fluctuate from year to year.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Unaudited)

Current assets of the OAQDA increased by \$4.8 million due primarily to the increase in the cash on hand for the Coal Development activity related to the receipt of additional state funding as noted above. Current and other liabilities increased by \$440,000 from those reported for the prior year as OAQDA recognized several large grants payable amounts at December 31, 2007 related to research projects but the amounts owed at December 31, 2006 was significantly lower. While the Coal Development activity reports \$7.4 million of current assets, approved grant obligations total \$6.1 million. The State of Ohio will provide the funding for these projects when cash is needed for payment as opposed to when the obligation is made.

Table 2 shows the changes in net assets for the years ended December 31, 2007 and 2006.

TABLE 2
CHANGE IN NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<i>Program Revenue:</i>						
Charges for services	\$ -	\$ -	\$ 1,682	\$ 1,025	\$ 1,682	\$ 1,025
Operating grants	9,748	552	739	503	10,487	1,055
<i>General Revenue:</i>						
Investment earnings	209	426	166	140	375	566
Miscellaneous	18	-	2	41	20	41
Total Revenue	<u>9,975</u>	<u>978</u>	<u>2,589</u>	<u>1,709</u>	<u>12,564</u>	<u>2,687</u>
<i>Program Expenses:</i>						
Community and economic development	7,176	4,269	-	-	7,176	4,269
Air quality development	-	-	899	980	899	980
Clean energy program	-	-	116	-	116	-
Total Program Expenses	<u>7,176</u>	<u>4,269</u>	<u>1,015</u>	<u>980</u>	<u>8,191</u>	<u>5,249</u>
Increase (Decrease) in Net Assets	<u>\$ 2,799</u>	<u>\$ (3,291)</u>	<u>\$ 1,574</u>	<u>\$ 729</u>	<u>\$ 4,373</u>	<u>\$ (2,562)</u>

The Air Quality Development activity 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. During 2007, the revenue from the administrative fees increased by \$657,000 due to the timing associated when the revenue bonds were issued and the size of the bonds issued during the year. Operating grants are provided by the Ohio EPA for the Small Business Assistance and Ombudsman programs based on a fee imposed by the Ohio EPA. Other operating grants are provided by other State Agencies for the operation of the Energy Strategy Development Program. In total, the operating grants for the business-type activities increased by approximately \$236,000, of which \$222,447 was related to the new Energy Strategy Development Program.

The Coal Development activity continues to fund research and development projects throughout the State of Ohio. To finance these projects, the State of Ohio issues general obligation bonds and passes the proceeds thru to OAQDA to administer the programs. As the general obligation bonds and the subsequent debt service requirements on those bonds are direct obligations of the State of Ohio, not OAQDA, the outstanding debt and debt service payments are reported in the financial statements of the State of Ohio, not within these financial statements. In 2004, the State of Ohio provided \$13 million to finance research and development projects. During 2007 and 2006, the OAQDA made grant payments totaling approximately \$6.7 million and \$3.7 million,

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Unaudited)

respectively, to the various programs and projects. At December 31, 2007 there was another \$6.1 million of approved projects with committed funds. The State of Ohio will provide additional funds when cash is needed to pay on these projects, not when the project is approved.

Operating costs of the business-type activities reported for 2007 increased by approximately \$35,000 when compared with the prior year. However, as previously noted, this is the first year the Energy Strategy Development Program is being reported. The total operating cost of this program for the year was approximately \$116,000.

Capital Assets

At December 31, 2007, the OAQDA had a total of \$93,958 invested in capital assets less accumulated depreciation of \$71,770 resulting in total capital assets, net of accumulated depreciation of \$22,188.

During the year ended December 31, 2007 the OAQDA purchased several pieces of office equipment and furniture which totaled \$8,925. Additional information on the OAQDA's capital assets can be found in Note 9 to the basic financial statements.

Contacting the OAQDA

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 for the money it receives. If you have questions about this report or need additional financial information contact the Ohio Air Quality Development Authority at 50 West Broad Street, Suite 1718, Columbus, Ohio 43215.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Activity	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 7,385,032	\$ 8,278,556	\$ 15,663,588
Receivables:			
Accounts	-	418,250	418,250
Intergovernmental	130,949	-	130,949
Internal balances	(109,872)	109,872	-
Prepaid items	967	6,230	7,197
Capital assets, net of accumulated depreciation	-	22,188	22,188
 Total Assets	 7,407,076	 8,835,096	 16,242,172
 Liabilities:			
Accounts payable	18,503	32,131	50,634
Grants payable	450,099	-	450,099
Accrued wages and benefits	9,962	29,010	38,972
Unearned revenue	-	89,000	89,000
 Total Liabilities	 478,564	 150,141	 628,705
 Net Assets:			
Invested in capital assets	-	22,188	22,188
Restricted for:			
Coal research and development programs	6,928,512	-	6,928,512
Unrestricted	-	8,662,767	8,662,767
 Total Net Assets	 \$ 6,928,512	 \$ 8,684,955	 \$ 15,613,467

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating Grants	Governmental Activity	Business-Type Activities	Total
Governmental Activity:						
Community and economic development	\$ 7,176,375	\$ -	\$ 9,747,870	\$ 2,571,495		\$ 2,571,495
Business-Type Activities:						
Air quality development	899,024	1,681,822	516,206		1,299,004	1,299,004
Energy strategy development	115,707	-	222,447		106,740	106,740
Total Business-Type Activities:	1,014,731	1,681,822	738,653		1,405,744	1,405,744
Total	\$ 8,191,106	\$ 1,681,822	\$ 10,486,523	2,571,495	1,405,744	3,977,239
General Revenues:						
Investment earnings				209,348	166,140	375,488
Miscellaneous				17,931	1,728	19,659
Total General Revenues				227,279	167,868	395,147
Changes in net assets				2,798,774	1,573,612	4,372,386
Net assets at beginning of year				4,129,738	7,111,343	11,241,081
Net assets at end of year				\$ 6,928,512	\$ 8,684,955	\$ 15,613,467

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2007

	<u>Coal Development</u>
Assets:	
Cash and cash equivalents	\$ 7,385,032
Intergovernmental receivable	130,949
Due from Other Funds	15,501
Prepaid items	<u>967</u>
Total Assets	<u>\$ 7,532,449</u>
Liabilities:	
Accounts payable	\$ 18,503
Grants payable	450,099
Accrued wages and benefits	9,962
Due to other funds	<u>125,373</u>
Total Liabilities	<u>603,937</u>
Fund Balances:	
Reserved for encumbrances	6,090,692
Unreserved	<u>837,820</u>
Total Fund Balance	<u>6,928,512</u>
Total Liabilities and Fund Balance	<u>\$ 7,532,449</u>

See accompanying notes to the basic financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Coal Development
Revenues:	
State assistance	\$ 9,441,302
Federal grant	306,568
Investment earnings	209,348
Other revenue	17,931
Total revenues	9,975,149
Expenditures:	
Current:	
Community and economic development:	
Salaries and employee benefits	199,396
Professional fees	102,195
Travel	5,560
Research	44,038
Coal development grants	6,718,723
Office supplies and other administrative expenditures	74,428
Rental payments	32,035
Total expenditures	7,176,375
Change in fund balance	2,798,774
Fund balances, January 1, 2007	4,129,738
Fund balances, December 31, 2007	\$ 6,928,512

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2007

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 8,059,902	\$ 218,654	\$ 8,278,556
Accounts receivable	418,250	-	418,250
Due from other funds	208,460	-	208,460
Prepaid items	5,771	459	6,230
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	22,188	-	22,188
 Total Assets	 8,714,571	 219,113	 8,933,684
 Liabilities:			
Current Liabilities:			
Accounts payable	24,865	7,266	32,131
Accrued wages and benefits	22,491	6,519	29,010
Due to other funds	-	98,588	98,588
Unearned revenue	89,000	-	89,000
 Total Liabilities	 136,356	 112,373	 248,729
 Net Assets:			
Invested in capital assets	22,188	-	22,188
Unrestricted	8,556,027	106,740	8,662,767
 Total Net Assets:	 \$ 8,578,215	 \$ 106,740	 \$ 8,684,955

See accompanying notes to the basic financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Air Quality Development	Energy Strategy Development	Total
Operating Revenues:			
Project administration fees	\$ 1,681,822	\$ -	\$ 1,681,822
Small business ombudsman fees	301,938	-	301,938
Small business assistance program fees	214,268	-	214,268
Energy operation fees	-	222,447	222,447
Investment earnings	166,140	-	166,140
Miscellaneous	1,728	-	1,728
 Total operating revenues	 2,365,896	 222,447	 2,588,343
 Operating Expenses:			
Salaries and employee benefits	490,049	54,512	544,561
Professional fees	103,982	25,458	129,440
Travel	23,517	3,016	26,533
Research	126,760	-	126,760
State assistance	21,159	-	21,159
Office supplies and other administrative expenses	89,448	23,903	113,351
Depreciation	5,375	-	5,375
Rental expense	38,734	8,818	47,552
 Total operating expenses	 899,024	 115,707	 1,014,731
 Change in net assets	 1,466,872	 106,740	 1,573,612
 Net assets, January 1, 2007	 7,111,343	 -	 7,111,343
 Net assets, December 31, 2007	 \$ 8,578,215	 \$ 106,740	 \$ 8,684,955

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Air Quality Development	Energy Strategy Development	Total
Cash flows from operating activities:			
Receipts from customers	\$ 1,473,572	\$ -	\$ 1,473,572
Cash received from OEPA	516,206	-	516,206
Cash received from state agencies	-	222,447	222,447
Interest received	166,140	-	166,140
Other operating revenues	1,728	-	1,728
Payments to suppliers and vendors	(432,736)	(54,388)	(487,124)
Payments to employees	(586,887)	(3,440)	(590,327)
Net cash provided by operating activities	<u>1,138,023</u>	<u>164,619</u>	<u>1,302,642</u>
Cash flows from non-capital financing activities:			
Advances to other funds	(156,297)	-	(156,297)
Advances from other funds	-	54,035	54,035
Net cash provided(used) by non-capital financing activities	<u>(156,297)</u>	<u>54,035</u>	<u>(102,262)</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(8,925)	-	(8,925)
Net cash used by capital and related financing activities	<u>(8,925)</u>	<u>-</u>	<u>(8,925)</u>
Net increase in cash and cash equivalents	972,801	218,654	1,191,455
Cash and cash equivalents - beginning of year	<u>7,087,101</u>	<u>-</u>	<u>7,087,101</u>
Cash and cash equivalents - end of year	<u>\$ 8,059,902</u>	<u>\$ 218,654</u>	<u>\$ 8,278,556</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,466,872	\$ 106,740	\$ 1,573,612
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	5,375	-	5,375
Increase in accounts receivable	(297,250)	-	(297,250)
Increase in due from other funds	(29,052)	-	(29,052)
Increase in prepaid expense	(2,101)	(459)	(2,560)
Increase(Decrease) in accounts payable	(20,143)	7,266	(12,877)
Decrease in grants payable	(4,586)	-	(4,586)
Increase in wages and benefits payable	4,538	6,519	11,057
Increase in due to other funds	-	44,553	44,553
Decrease in accrued retirement incentive	(72,324)	-	(72,324)
Decrease in intergovernmental payable	(2,306)	-	(2,306)
Increase in unearned revenue	89,000	-	89,000
Net cash provided by operating activities	<u>\$ 1,138,023</u>	<u>\$ 164,619</u>	<u>\$ 1,302,642</u>

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2007

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 neither stockholders nor equity holders. The governing body consists of seven members. Five public members, of whom no more than three can be from the same political party, 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, 2007 was approximately \$1.6 billion.

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 Basic Financial Statements
For the Year Ended December 31, 2007

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.

Energy Strategy Development Program

In January 2007, Governor Ted Strickland issued Executive Order 2007-02 creating the position of Governor's Energy Advisor and appointing the Executive Director of the Authority to that position. The ensuing budget provided support for the office of the Governor's Energy Advisor through agreed upon assessments to other state agencies. The Energy Strategy Development Program carries out the duties of that office. It has two principle obligations under the Executive Order. The first is to coordinate the development of a comprehensive and coordinated state energy strategy to be implemented through the programmatic work of more than a dozen state agencies. The primary goal of the strategy is to strengthen Ohio's economy by building upon its inherent strengths to take advantage of the deployment and manufacture of advanced energy technologies. The second obligation is to coordinate the efforts of all state agencies to lead by example and reduce their energy consumption by an aggregate amount of 15% by the end of the administration's second biennial budget.

Coal Development Program

Effective July 1, 2003, legislation transferred the Ohio Coal Development Office, its staff and programs to the Ohio Air Quality Development Authority. The Coal Development Office co-funds the development and implementation of technologies that can use Ohio's vast reserves of high sulfur coal in an economical, environmentally sound manner. Funding for the operations of the Coal Development Office is provided by the State of Ohio through its general operating fund. Financing for the co-funding of the various research projects as well as the implementation of technologies is provided by the sale of general obligation bonds by the State of Ohio. The repayment of these bonds is not included within the Authority's financial statements; these payments are included within the State of Ohio's comprehensive annual financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The coal development activity (governmental activity), as well as the air quality development activity and energy strategy development program (business-type activities), which are administered by the Ohio Air Quality Development Authority are aggregated and included in the comprehensive annual financial report of the State of Ohio as a discretely presented component unit. The Authority's management believes these financial statements present all activities for which the Authority is financially responsible.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2007

B. Basis of Presentation

The Authority's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of net assets and the statement of activities display information about the Authority as a whole. These statements include all of the financial activities of the Authority. The statements distinguish between those activities of the Authority that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Authority at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities and for the business-type activities of the Authority. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by a recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Authority, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business-type activity is self-financing or draws from the general revenues of the Authority.

Fund Financial Statements

During the year, the Authority segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at this more detailed level. At December 31, 2007, the Authority had one governmental fund (coal development) and two enterprise funds (air quality development and energy strategy development programs).

C. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Authority reports no fiduciary funds.

Governmental Funds

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Coal Development - This fund is used to account for state revenue received for the operation of the Coal Development Office as well as bond proceeds used to finance the research and implementation of new technology designed to enhance the use of Ohio coal in industry.

Proprietary Funds

The proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The Authority has no internal service funds.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee or assessment is charged to external users for goods or services. The following are the Authority's enterprise funds:

Air Quality Development – This fund accounts for the activities of the air quality development office as well as the small business programs where the fees charged to the users are intended to cover the operating costs of the programs.

Energy Strategy Development – This fund accounts for the activities of the program established by the State to identify and promote alternative sources of energy strategy development. The program is funded through commitments from several agencies within the State of Ohio.

D. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operations of the Authority are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements

The governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances report the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activity of the government-wide financial statements is prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund. Since the governmental fund does not have any long term assets or liabilities, no reconciliation to the government-wide financial statements is necessary.

Like the government-wide statements, the enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activities.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2007

E. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transaction

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Authority is thirty-one (31) days after year-end.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include the state assistance revenue received by the Authority. Revenue from state assistance is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

F. 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 elected not to adopt any FASB Statements and Interpretations issued after November 30, 1989.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

G. Cash and Cash Equivalents

Cash and cash equivalents of the Authority include amounts on deposit in several 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 all of the above accounts, to be cash equivalents, as defined in GASB Statement No. 9.

H. 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, 2007, was \$93,958 and \$71,770, respectively.

I. Enterprise Fund 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 recognizes 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 as well as commitments from other agencies within the State for the operation of energy strategy development program, as described previously. 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 recognizes this revenue in the period in which it is earned.

Classification

The Authority considers bond administrative fees, intergovernmental energy commitments, interest earned from money market accounts and reimbursements from the Ohio Environmental Protection Agency as operating revenues.

J. Accrued Wages and Benefits

Accrued wages consists of wages payable to Authority employees as of December 31, 2007. The accrued wages balance consists of \$38,972 owed to employees for worked performed during the fiscal year.

L. 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.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2007

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.

M. Interfund Activity

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated through the process of consolidation.

3. CHANGE IN ACCOUNTING PRINCIPLES

For 2007, the Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 established uniform standards of financial reporting for other postemployment benefit plans and increases the usefulness and improves the faithfulness of representations in financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the Authority; however, the Postemployment Benefit disclosures (See Note 6) have been modified for its implementation.

4. CASH AND CASH EQUIVALENTS

At fiscal year end, the carrying amount of the Authority's deposits was \$15,663,588 and the bank balance was \$15,663,588. 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, 2007 the Authority had \$26,762 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, 2007, the balances for the Small Business Ombudsman and the Small Business Assistance programs were \$742,540 and \$2,316,142, respectively.

Energy Strategy Development Deposits with Treasurer of State: The Authority maintains energy strategy development program funds with the Treasurer of State for the purpose of funding the Energy strategy development program described in the General Information section of the Notes. At December 31, 2007, the balance for the energy strategy development program was \$218,654.

Coal Development Deposits with Treasurer of State: Coal development grants are funded through the proceeds from the sale of State of Ohio's bonds. Bond proceeds which have not been distributed are on deposit with the Treasurer of State. At December 31, 2007, the Authority's cash balance in the coal research and development fund was \$7,385,032.

Bank Money Market Funds: Cash not deposited with the Treasurer of State were held in a money market account that invests in U.S. Treasury instruments (bills, notes, bonds). At December 31, 2007, the Authority had \$4,974,458 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.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

5. PENSION PLAN

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is 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 the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5% of their annual covered salaries. The total employer's contribution rate for pension benefits for 2007 was 13.77%. The Ohio Revised Code provides statutory authority for member and employer contributions. Total required employer contributions for pension obligations were \$43,913, \$43,323 and \$44,864 for the years ending December 31, 2007, 2006, and 2005, respectively, and are equal to 100% of the amount billed to, and paid by, the Authority.

6. OTHER POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The Ohio Revised Code (ORC) permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC. In addition, the ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2007, state employers contributed at a rate of 13.77% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retirees or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of the Authority's contributions to OPERS used to fund post-employment benefits for the years ended December 31, 2007, 2006 and 2005 were \$29,270, \$21,565 and \$19,276, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

7. 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 2007 was \$79,587. The terms of the leases are not anticipated to change significantly in future fiscal years.

8. COMMITMENTS

As of December 31, 2007 the Authority had commitments of approximately \$6.0 million for research grants due on coal research and development agreements. These grants will be paid from proceeds of debt issued by the State of Ohio.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2007

9. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital Assets:</u>				
Office Equipment	\$ 85,033	\$ 8,925	\$ -	\$ 93,958
Less accumulated depreciation for:				
Office Equipment	(66,395)	(5,375)	-	(71,770)
Total capital assets, net	\$ <u>18,638</u>	\$ <u>3,550</u>	\$ <u>-</u>	\$ <u>22,188</u>

10. INTERFUND ACTIVITY

At December 31, 2007, the coal development activity and the energy strategy development program owed the air quality development activity \$125,373 and \$ 54,035, respectively, for its share of the overhead operating expenses for the fourth quarter of 2007. In addition, the energy strategy development fund owed the air quality development activity and the coal development activity \$29,052 and \$15,501, respectively, at the end of the year for salaries that were originally paid out of the different funds but was allocated to the energy strategy development program. The reimbursement of these funds should occur during 2008.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
COAL DEVELOPMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
State assistance	\$ 8,327,492	\$ 9,663,693	\$ 9,447,440	\$ (216,253)
Federal grant	595,200	595,200	306,568	(288,632)
Interest	-	-	209,348	209,348
Other	-	-	17,931	17,931
Total Revenues	<u>8,922,692</u>	<u>10,258,893</u>	<u>9,981,287</u>	<u>(277,606)</u>
Expenditures:				
Current:				
General fund	327,492	663,693	503,157	160,536
Coal research and development	<u>14,663,244</u>	<u>19,663,244</u>	<u>12,797,533</u>	<u>6,865,711</u>
Total Expenditures	<u>14,990,736</u>	<u>20,326,937</u>	<u>13,300,690</u>	<u>7,026,247</u>
Change in Fund Balance	<u>(6,068,044)</u>	<u>(10,068,044)</u>	<u>(3,319,403)</u>	<u>6,748,641</u>
Fund Balance at Beginning of Year	(4,798,071)	(4,798,071)	(4,798,071)	-
Prior Year Encumbrances Appropriated	<u>9,441,911</u>	<u>9,441,911</u>	<u>9,441,911</u>	-
Fund Balance at End of Year	<u>\$ (1,424,204)</u>	<u>\$ (5,424,204)</u>	<u>\$ 1,324,437</u>	<u>\$ 6,748,641</u>

See accompanying notes to the required supplementary information.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Required Supplementary Information

For the Year Ended December 31, 2007

Basis of Budgeting

The basis of budgeting differs from generally accepted accounting principles (GAAP) used for the Authority's year-end statements contained within the basic financial statements. Under that basis of accounting, revenues are generally recognized when the obligation to the Authority arises; the budget basis however, recognized revenue only when cash has been received. Under GAAP, expenditures are generally recognized in the period in which they are incurred. Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

Budgeting Policies

The coal development program is budgeted through the State of Ohio. Program allocations are contained within the biennium budget bill approved by the General Assembly. Since the State of Ohio is on a fiscal year which ends on June 30 and the Authority reports on a calendar year-end, there will be timing difference between the amount appropriated (authorized spending levels) and the estimated revenues.

Original budget amounts in the accompanying budgetary schedule was taken from the budget for the last half of the fiscal year 2007 State budget. The final budgetary amounts incorporate the first half of the fiscal year 2008 State budget. An appropriated budget is the expenditure authority created by appropriations bills that are signed into law and related estimated revenues. The budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

Final budget amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to the period ending December 31, 2007, whenever signed into law or otherwise legally authorized.

A reconciliation of the fund balance reported under the GAAP basis and budgetary basis for the coal development program is presented below:

Reconciliation of GAAP Basis Change in Fund Balance
to Non-GAAP Budgetary Basis Change in Fund Balance
For the Coal Development Program
As of December 31, 2007

GAAP Basis	\$ 2,798,774
Revenue Accruals	6,138
Expenditure Accruals	420,476
Encumbrances	<u>(6,544,791)</u>
Budgetary Basis	<u>\$ (3,319,403)</u>

Due to the timing differences between the State's fiscal year and the calendar year reporting period utilized by the Authority, various budgetary deficits will occur. These deficits will eventually be eliminated as the timing differences pass. In no event is the Authority entitled to spend or obligate State funds for which appropriations do not exist.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Ohio Air Quality Development Authority
50 W. Broad Street, Suite 1718
Columbus, Ohio 43215

To the Authority:

We have audited the accompanying financial statements of the governmental activities and business-type activities of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 19, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Authority's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding Number 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Authority's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, regarding the significant deficiency described above, we believe finding number 2007-001 is also a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

The Government's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Government's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the Authority's management and governing board. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 19, 2008

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS
JANUARY 1, 2007 TO DECEMBER 31, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

SIGNIFICANT DEFICIENCY / MATERIAL WEAKNESS

FINANCIAL REPORTING

Effective internal controls over financial reporting help to prevent or detect misstatements in the accounting records and financial statements and reasonably ensure compliance with laws, regulations and current governmental accounting standards.

The Authority has attempted to implement a system of internal controls for their accounting and financial reporting processes, and while there have been improvements, the controls they have in place continued to be ineffective. As a result, several errors were noted in the original financial statements presented to the auditor, including one that involved a material misstatement. Specifically, on several occasions the Authority either did not record the proper amount of project administration fees on the Recent Bond Summary or they did not record the proper amount of project administration fees on the invoice which led to billing and collection errors. These errors resulted in required adjustments to the project administration fees, accounts receivable and deferred revenue line items on the financial statements. In addition, other errors of varying magnitude were noted in the accounting records, original statements, and supplementary information during the audit process.

The Authority has traditionally contracted with outside professional assistance for financial statement preparation and various accounting functions, and although they have since taken steps to reduce and eventually eliminate their reliance on outside assistance, the CY 2007 statements were still prepared using essentially the same methodology as in previous years. Despite such outside assistance, the Authority's management is ultimately responsible for the presentation of the statements as well as compliance with applicable laws, regulations and accounting principles. The compiled statements are reviewed by the Authority's Executive Director, and beginning this year were reviewed by the Authority's governing Board prior to being given to the auditors. However, management still did not play a sufficient enough role in the CY 2007 financial reporting process to provide for effective monitoring.

In addition, Ohio Revised Code (ORC) Section 3706.13, relating to the Ohio Air Quality Development Authority, states in part:

...

On or before the twentieth day of April in each year, the authority shall make a report of its activities for the preceding calendar year to the governor and the general assembly. Each such report shall set forth a complete operating and financial statement covering the authority's operations during the year....

Further complicating matters, during CY 2007 the State of Ohio replaced its existing Central Accounting System (CAS) with a new accounting system, the Ohio Administrative Knowledge System (OAKS). Since the Authority, unlike most state agencies, has a December 31 year-end, they were the first state agency required to compile financial statements using the information reported in OAKS. As such, there were many difficulties encountered by the Authority, the Authority's compiler, and the Office of Budget and Management (OBM) in obtaining year-end information, and these difficulties resulted in the Authority's financial statements not being provided to the Auditor until August 25, 2008, well after the date established by ORC Section 3706.13. Based on our review it appears the problems encountered with OAKS, many of which could have been avoided or minimized via increased management oversight and improved controls, combined with the errors noted in the financial statements and underlying accounting records, indicate the Authority's procedures over financial reporting for CY 2007 continued to be ineffective.

The failure to implement effective controls or oversight of the accounting and financial reporting processes increases the risk that the accounting records of the Authority are inaccurate, that errors will occur and not be detected, and that significant errors that are detected will require adjustment to the accounting records and financial statements. Inaccurate financial statements provide state government and external parties erroneous information about the Authority, resulting in reduced confidence in the Authority's functions.

To enhance financial accountability, we recommend the Authority continue to review their current financial reporting process, as well as errors detected during the audit process, and continue their efforts to actively re-design and implement formal policies and procedures specifically addressing the timely and accurate completion and review of the basic financial statements, including Management's Discussion and Analysis and related footnotes. For instance, the Authority should consider implementing the following procedures to address those areas where material adjustments have been required in the past (1) ensure the Recent Bond Summary is updated properly by having a second employee verify the accuracy of all entries on the Recent Bond Summary; (2) ensure the invoice amount agrees to the project administrative fee reported as due on the Recent Bond Summary by having a second employee perform a recalculation of the project administration fees and comparing it to the Recent Bond Summary; (3) communicate with those responsible for processing the transaction in OAKS and recording the transactions in QuickBooks are aware of the date to be used as the last receipt date which is used to determine a payable; (4) ensure the amounts reported as payables are correct by either relying on the information as it is reported in OAKS or include the December transactions in the listing obtained to determine which expenditures are current year payables to ensure that all possible transactions are included.

We further recommend the Authority implement appropriate monitoring controls so that management can more effectively oversee the agency's fiscal function to help ensure the accounting system is providing complete, accurate and timely information for inclusion in the Authority's financial statements. For instance, the Authority should consider implementing the following procedures to address those areas where errors have occurred in the past: (1) ensure the monthly bank reconciliations are performed on a timely basis; (2) review and provide evidence of the review of the completed bank reconciliations performed by the Authority's compiler; (3) provide current financial information to the Board members using what resources are available to them; (4) review the financial reporting policies and procedures on an annual basis to ensure they are complete, accurate, and up to date; (5) update the financial reporting policy and procedures manual for any changes identified in the annual review.

Finally, the Authority should provide additional training in accounting functions and financial reporting for Authority employees involved in the accounting process as well as hire additional personnel experienced with financial reporting, although it should be noted the Authority has recently hired such a person.

OFFICIALS' RESPONSE

In response to the report of the Auditor of State's team on the 2007 audit, presented at the December 9, 2008 Ohio Air Quality Development Authority meeting, members reviewed and authorized the following initial actions at that same meeting:

To further improve our system of internal controls, OAQDA has added a fiscal officer position and hired an individual who is a CPA and experienced as a fiscal officer in state government. Since starting in November, she is fully engaged in the accounting and financial reporting processes providing overall oversight of the accounting and financial reporting functions.

The first challenge is to analyze current procedures and to identify any underlying causes of the types of errors described by the audit. Based upon that analysis, current procedures will be reviewed to increase both efficiency and accuracy. An essential part of this review will be adapting procedures to take full advantage of the new fiscal officer position.

The role of each staff person involved in fiscal transactions will be examined and, if necessary, altered to improve controls and accuracy. Once the redesign of our internal control structure is completed, formal policies and procedures will be submitted to OAQDA for approval and implementation.

As part of 2008 year end activity, OAQDA is conducting a thorough review of those areas identified as potentially problematic. This includes internal processes, the agency's interaction with OAKS and improved communication about OAQDA procedures with Central Services Administration.

An outside accounting firm, originally engaged at the recommendation of the Auditor, is currently providing accounting services. To further improve our internal controls and provide timely monthly financial reports, we plan to bring that activity back in house although we will continue to use that firm for preparation of our consolidated financial statement.

Finally, we note that material errors identified by the Auditor of State were corrected immediately and all proper adjustments to fees had been made before the final audit report was completed.



Mary Taylor, CPA
Auditor of State

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
JANUARY 13, 2009**