Ohio Air Quality Development Authority

Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
December 31, 2017

Dave Yost • Auditor of State

Board of Trustees
Ohio Air Quality Development Authority
50 West Broad Street, Suite 1718
Columbus, OH 43215

We have reviewed the *Independent Auditor's Report* of the Ohio Air Quality Development Authority, Franklin County, prepared by Rea & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

June 12, 2018

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Franklin County, Ohio
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May 15, 2018

Ohio Air Quality Development Authority
Franklin County, Ohio
50 West Broad Street, Suite 1718
Columbus, OH 43215

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, Franklin County, Ohio, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, each major fund and the aggregate remaining fund information of the Ohio Air Quality Development Authority, Franklin County, Ohio, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the basic financial statements of the Authority are intended to present the financial position, the changes in financial position, and, where applicable, cash flows thereof 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, 2018, the changes in financial position, or, where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Authority's Proportionate Share of the Net Pension Liability,* and *Schedule of Contributions* on pages 3–8, 33, and 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Assets and Liabilities – Agency Fund (the schedule), is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

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, 2017. 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 financial statements to enhance their understanding of OAQDA's financial performance.

For 2017, OAQDA was responsible for the administration of three programs: Project Development and Financing; the Clean Air Resource Center; and the Energy Strategy Development Program. The Project Development and the Clean Air Resource Center are combined in the air quality development activity which is reported as an enterprise fund. Project 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 Activity accounts for the financial activity related to promoting deployment and manufacture of advanced energy technologies financed through revenue bonds issued under Ohio Revised Code (ORC) Section 166.08 by the State of Ohio. Like the air quality development activity, the energy strategy development activity is reported as an enterprise fund.

The aggregate financial information of these programs noted above is reported as a discretely presented component unit in the State of Ohio's Comprehensive Annual Financial Report (CAFR).

Financial Highlights

Key financial highlights for the year ended December 31, 2017 are as follows:

- Total net position of OAQDA decreased by $10.1 million in 2017 from the $22.1 million at December 31, 2016 to $12.0 million one year later. This decrease can be attributed to the $9.8 million decrease in cash and cash equivalents reported at December 31, 2017 compared to that reported at the end of the prior year. During 2017, the Authority returned $7.8 million of funding originally provided to establish the energy strategy development program as the State of Ohio has determined to allocate these funds to other programs. This remittance to the State was in addition to the remittance of $921,000 of principal and interest collected on the energy loans during the year. Finally, the Authority returned $1.5 million in small business assistance fees received in prior years to the Ohio EPA for use in other programs.

- Total revenues of the OAQDA's enterprise activities increased by approximately $273,000 or 27.1 percent compared to those reported for the prior year. Since the project administration fee is based on the dollar amount of the projects financed, the increase in the size of the projects financed in 2017 over those financed in 2016 account for the significant increase in this revenue source. The funding sources for the energy strategy development program ceased with the adoption of the new State budget which effectively eliminated any additional projects being funded through this program.

- The total expenses of the two enterprise activities of OAQDA reported for 2017 was $11.4 million compared with the $4.4 million reported for 2016. The most significant increase reported for the year was associated with the intrastate remittances previously discussed. The increase in employee salaries and benefits are directly related to the additional pension expense reported for the year as required by GASB Statement No. 68. The decrease in loan incentive expense resulted from no loan amounts being forgiven during 2017 and the decrease in doubtful accounts expense was based on the results of establishing current year allowance reserves associated with the outstanding energy loans. Grant project expense increased as the number of small business grants awarded continued to increase in 2017.

OAQDA Financial Statements

OAQDA follows proprietary fund accounting, which means its financial statements are presented in a manner similar to a private-sector business. The financial statements are designed to provide readers with a broad overview of the OAQDA's finances by activity and in total. An activity is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. OAQDA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These statements offer short and long-term financial information about the activities.

The statement of net position presents information on the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of OAQDA as well as the net position of the two enterprise activities as of December 31, 2017. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of OAQDA is improving or deteriorating. The statement of revenues, expenses and changes in net position presents information showing how OAQDA's enterprise activities' net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years (e.g., depreciation). The statement of cash flows provides information about OAQDA's cash receipts received and cash payments made during the year. This statement summarizes the net changes in cash resulting from operating, noncapital financing, capital, and investing activities of the two enterprise activities.

Fiduciary funds are used to account for resources held for the benefit of parties outside OAQDA. OAQDA maintains one type of fiduciary fund, an agency fund, which is used to report financial resources held in a custodial capacity for private entities.

The notes to the financial statements provide additional information that is essential to a full understanding of the financial data shown in the financial statements.

The OAQDA as a Whole

The following tables provide a summary of OAQDA's financial position and operations for 2017 and 2016, respectively.

TABLE 1
NET POSITION

	2017	2016	Dollar Change	Percent Change
Assets:				
Current and Other Assets	$ 12,423,197	$ 22,757,914	$ (10,334,717)	-45.41%
Capital Assets, Net	1,292	2,365	(1,073)	-45.37%
Total Assets	12,424,489	22,760,279	(10,335,790)	-45.41%
Deferred Outflows of Resources:				
Pension	149,692	99,845	49,847	49.92%
Liabilities:				
Current and Other Liabilities	307,339	535,466	(228,127)	-42.60%
Long-Term Liabilities:				
Due in more than One Year - Pension	286,386	198,034	88,352	44.61%
Total Liabilities	593,725	733,500	(139,775)	-19.06%

(continued)

TABLE 1
NET POSITION
(continued)

	2017	2016	Dollar Change	Percent Change
Deferred Inflows of Resources:				
Pension	19,826	39,013	(19,187)	-49.18%
Net Position:				
Invested in Capital Assets	1,292	2,365	(1,073)	-45.37%
Restricted:				
Existing Advanced Energy Projects	1,703,290	10,044,036	(8,340,746)	-83.04%
Ohio Development Services	7,579	25,000	(17,421)	-69.68%
Unrestricted	10,248,469	12,016,210	(1,767,741)	-14.71%
Net Position	$ 11,960,630	$ 22,087,611	$ (10,126,981)	-45.85%

Table 2 shows the changes in net position for the years ended December 31, 2017 and 2016.

TABLE 2
CHANGE IN NET POSITION

	2017	2016	Dollar Change	Percent Change
Operating Revenues:				
Project administration fees	$ 725,268	$ 366,353	$ 358,915	97.97%
EPA fees	320,165	348,345	(28,180)	-8.09%
Energy operation fees	-	176,394	(176,394)	-100.00%
Energy loan income	92,944	37,902	55,042	145.22%
Miscellaneous	2,000	-	2,000	
Non-Operating Revenues:				
Investment earnings	140,690	78,926	61,764	78.26%
Total Revenue	1,281,067	1,007,920	273,147	27.10%
Operating Expenses:				
Salaries and benefits	470,817	416,594	54,223	13.02%
Professional fees	306,862	287,987	18,875	6.55%
Travel	4,559	4,760	(201)	-4.22%
Research grants/projects	473,473	348,982	124,491	35.67%
Intrastate remittance	10,023,408	2,929,799	7,093,609	242.12%
Administrative/office supplies	59,171	67,829	(8,658)	-12.76%
Depreciation	1,073	1,236	(163)	-13.19%
Rental	68,685	67,910	775	1.14%
Loan incentive	-	100,500	(100,500)	100.00%
Doubtful accounts	-	211,134	(211,134)	-100.00%
Total Expenses	11,408,048	4,436,731	6,971,317	157.13%
Change in net position	(10,126,981)	(3,428,811)	(6,698,170)	195.35%
Net position, January 1	22,087,611	25,516,422	(3,428,811)	-13.44%
Net position, December 31	$ 11,960,630	$ 22,087,611	$ (10,126,981)	-45.85%

As displayed in Table 1, the OAQDA reported a net position of $12.0 million at December 31, 2017 compared to the $22.1 million reported for the prior year. Net position at year-end restricted for specific purposes totaled $1.7 million; virtually all restricted for existing advanced energy project loans outstanding with the remainder restricted for required remittances associated with Energy Strategy Development activity. At December 31, 2017 the unrestricted net position of the air quality development activity represents nearly 7.5 times the total annual operating expenses for the activity reported for 2017, excluding the $1.5 million one-time return of fees to the Ohio EPA.

Adopted in a prior year, GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," has significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under GASB 68, the net pension liability equals the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules, however there is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the Authority. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

Accordingly, the Authority's financial statements include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Overall total net position of OAQDA decreased by $10.1 million in 2017; net position of the air quality development activity decreased by $1.7 million while the net position of the energy strategy development activity decreased by approximately $8.4 million. The decrease in the net position of the air quality development activity during the year resulted primarily from the one-time remittance of small business development fees back to the Ohio EPA as well as increase in the grants awarded for the year. The dramatic decrease in the energy strategy development activity was anticipated as the State determined this program would no longer fund new projects and the unspent program funds would be reallocated to other programs within the State. As a result, the energy operation fees ceased during 2017 and the Authority remitted $7.8 million in unspent program funds back to the State of Ohio. In accordance to State requirements, nearly $921,000 of energy loan principal and interest payments collected by the Authority are remitted to the Ohio Development Services Agency (DSA) to fund future energy related projects as determined by DSA. As such, intrastate remittance expense represented over 99.0 percent of the total expenses reported by the energy strategy development activity for 2017. Total restricted net position reported for the energy strategy development activity at the end of 2017 was $8.4 million less than one year prior due to the remittance of unspent program funds and the decrease in energy loans receivable reported at December 31, 2017 compared to that reported for the prior year. The net position of the energy strategy development activity is anticipated to continue to decrease while the program is closed out.

Table 2 shows total revenues of the OAQDA's enterprise activities increased by $273,147 or 27.1 percent compared to those reported for the prior year. The primary driver of the increase of $358,915 resulted from the increase in project administration fees reported for 2017 as a result of more projects completed with larger-sized bond closures occurring during the year. The increase in project administration fees for the year was somewhat offset by the energy operation fees ceasing in 2017.

The total expenses of the two enterprise activities of OAQDA reported for 2017 was 11.4 million compared with the $4.4 million reported for 2016. The most significant increase reported for the year was associated with the intrastate remittances previously discussed. The increase in employee salaries and benefits are directly related to the additional pension expense reported for the year as required by GASB Statement No. 68. The decrease in loan incentive expense resulted from no loan amounts being forgiven during 2017 and the decrease in doubtful accounts expense was based on the results of establishing current year allowance reserves associated with the outstanding energy loans. Grant project expense increased as the number of small business grants awarded continued to increase in 2017.

Capital Assets

At December 31, 2017, the OAQDA had a total of $90,430 invested in capital assets less accumulated depreciation of $89,138 resulting in total capital assets, net of accumulated depreciation of $1,292. There were no capital asset additions recorded for 2017 and depreciation expense for the year totaled $1,073. Additional information on the OAQDA's capital assets can be found in Note 6 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 POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2017

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	$ 4,769,989	$ 2,307	$ 4,772,296
Investments	2,096,877	-	2,096,877
Accounts receivable	339	-	339
Accrued interest receivable:			
Investment income	23,010	-	23,010
Energy loans receivable, net of doubtful accounts	-	1,700,983	1,700,983
Prepaid items	7,556	-	7,556
Restricted assets:			
Cash and cash equivalents with fiscal agent	-	119,239	119,239
Total Current Assets	6,897,771	1,822,529	8,720,300
Noncurrent Assets:			
Investments	3,702,897	-	3,702,897
Capital assets, net of accumulated depreciation	1,292	-	1,292
Total Noncurrent Assets	3,704,189	-	3,704,189
Total Assets	10,601,960	1,822,529	12,424,489
Deferred Outflows of Resources:			
Pension	149,692	-	149,692
Liabilities:			
Current Liabilities:			
Accounts payable	186,565	-	186,565
Accrued wages and benefits	9,114	-	9,114
Payable from restricted assets:			
Intrastate payable	-	111,660	111,660
Total Current Liabilities	195,679	111,660	307,339
Noncurrent Liabilities:			
Net pension liability	286,386	-	286,386
Total Liabilities	482,065	111,660	593,725
Deferred Inflows of Resources:			
Pension	19,826	-	19,826
Net Position:			
Invested in capital assets	1,292	-	1,292
Restricted for:			
Existing Ohio Advanced Energy Projects	-	1,703,290	1,703,290
Remittance to Ohio Development Services Agency	-	7,579	7,579
Unrestricted	10,248,469	-	10,248,469
Total Net Position	$ 10,249,761	$ 1,710,869	$ 11,960,630

See accompanying notes to the financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Air Quality Development	Energy Strategy Development	*Eliminations*	Total
Operating Revenues:				
Project administration fees	$ 725,268	$ -	$ -	$ 725,268
Small business ombudsman fees	199,876	-	-	199,876
Small business assistance program fees	120,289	-	-	120,289
Energy loan income:				
Loan interest	-	13,411	-	13,411
Loan fees	-	6,800	-	6,800
Adjustment for doubtful accounts	-	72,733	-	72,733
Miscellaneous	-	43,161	*(41,161)*	2,000
Total operating revenues	1,045,433	136,105	*(41,161)*	1,140,377
Operating Expenses:				
Salaries and employee benefits	447,255	64,723	*(41,161)*	470,817
Professional fees	306,862	-	-	306,862
Travel	4,559	-	-	4,559
Research grants and projects	473,473	-	-	473,473
Intrastate remittance expense	1,500,000	8,523,408	-	10,023,408
Office supplies and other administrative expenses	58,383	788	-	59,171
Depreciation	1,073	-	-	1,073
Rental expense	68,685	-	-	68,685
Total operating expenses	2,860,290	8,588,919	*(41,161)*	11,408,048
Operating loss	(1,814,857)	(8,452,814)	-	(10,267,671)
Nonoperating revenues:				
Investment earnings:				
Interest revenue	84,277	56,223	-	140,500
Change in fair value of investments	190	-	-	190
Total nonoperating revenues	84,467	56,223	-	140,690
Change in net position	(1,730,390)	(8,396,591)	-	(10,126,981)
Net position, January 1, 2017	11,980,151	10,107,460		22,087,611
Net position, December 31, 2017	$ 10,249,761	$ 1,710,869		$ 11,960,630

See accompanying notes to the financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Air Quality Development	Energy Strategy Development	Total
Cash flows from operating activities:			
Receipts from customers	$ 725,529	$ -	$ 725,529
Cash received from OEPA	320,165	-	320,165
Energy loans principal repayment	-	626,404	626,404
Interest received on energy loans	-	63,411	63,411
Energy loans fees received	-	6,800	6,800
Intrastate payments	(1,500,000)	(8,754,254)	(10,254,254)
Payments to suppliers and vendors	(864,636)	(7,588)	(872,224)
Payments to employees	(383,678)	(67,301)	(450,979)
Net cash used by operating activities	(1,702,620)	(8,132,528)	(9,835,148)
Cash flows from non-capital financing activities:			
Advances to other funds	-	(37,000)	(37,000)
Advances from other funds	37,000	-	37,000
Net cash provided (used) by non-capital financing activities	37,000	(37,000)	-
Cash flows from investing activities:			
Purchase of investments	(590,847)	-	(590,847)
Sale of investments	524,258	-	524,258
Investment earnings	82,923	56,223	139,146
Net cash provided by investing activities	16,334	56,223	72,557
Net decrease in cash and cash equivalents	(1,649,286)	(8,113,305)	(9,762,591)
Cash and cash equivalents - beginning of year	6,419,275	8,234,851	14,654,126
Cash and cash equivalents - end of year	$ 4,769,989	$ 121,546	$ 4,891,535
Cash and cash equivalents - Statement of Net Position:			
Unrestricted:			
Cash and cash equivalents	$ 4,769,989	$ 2,307	$ 4,772,296
Restricted:			
Cash and cash equivalents with fiscal agent	-	119,239	119,239
Total cash and cash equivalents	$ 4,769,989	$ 121,546	$ 4,891,535

(Continued)

See accompanying notes to the financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

	Air Quality Development	Energy Strategy Development	Total
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$ (1,814,857)	$ (8,452,814)	$ (10,267,671)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	1,073	-	1,073
Decrease in energy loans receivable	-	578,671	578,671
Decrease in accounts receivable	261	-	261
Decrease in loan interest receivable	-	25,000	25,000
Increase in prepaid expense	(673)	-	(673)
(Increase) Decrease in deferred outflows of resources	(79,800)	29,953	(49,847)
Increase (Decrease) in accounts payable	47,999	(8,800)	39,199
Increase (Decrease) in wages and benefits payable	3,098	(2,578)	520
Decrease in intrastate payable	-	(230,846)	(230,846)
Increase (Decrease) in net pension payable	147,762	(59,410)	88,352
Decrease in deferred inflows of resources	(7,483)	(11,704)	(19,187)
Net cash used by operating activities	$ (1,702,620)	$ (8,132,528)	$ (9,835,148)
Schedule of non-cash investing activities:			
Change in fair value of investments	$ 190	$ -	$ 190

See accompanying notes to the financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2017

Assets:		
Cash and cash equivalents	$	-
Total Assets	$	-
Liabilities:		
Due to others	$	-
Total Liabilities	$	-

See accompanying notes to the basic financial statements.

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. In addition to conventional financings, pursuant to 3706.04 and in accordance with section 54D(e) of the Internal Revenue Code, 26 U.S.C. 54D(e), the Authority allocates the national qualified energy conservation bond (QECB) limitation to the state and reallocates any portion of an allocation waived by a county or municipality. The aggregate amount of principal outstanding as of December 31, 2017 was approximately $3.2 billion, which includes both conventional and QECB financings.

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.

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

The Energy Strategy Development Program received financing for various advanced energy technology projects as well as the implementation of energy conservation projects through the sale of revenue bond obligations by the State of Ohio pursuant to ORC Section 166.08. 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 (CAFR).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial activity of the programs administered by the Ohio Air Quality Development Authority (air quality development activity and energy strategy development program business-type activities and the agency fund accounting for the Diesel Emissions Reduction Grants Program) are aggregated and included in the CAFR 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.

B. Basis of Presentation

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position present the financial activity of the Authority’s programs, except for the fiduciary funds. The Authority had no programs classified as governmental activities for the year ended December 31, 2017.

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. During 2017, the Authority had two enterprise funds (air quality development and energy strategy development programs) and one agency fiduciary fund. For the year, the Authority had no governmental fund types.

C. <u>Fund Accounting</u>

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 focus of enterprise fund financial statements is on major program (fund) level, while fiduciary funds are reported by type. For 2017, the Authority reported no governmental funds.

<u>Proprietary Funds</u>

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

<u>Enterprise Funds</u> – 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 financial activity related to coordinating and development of a comprehensive and coordinated state energy strategy as well as promoting deployment and manufacture of advanced energy technologies throughout the State. The program is funded under ORC Section 166.08 through the issuance of State revenue bonds.

<u>Fiduciary Funds</u>

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Authority only reports one agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Diesel Emissions Reduction Grant Program - The Authority is a "Public Sponsor" (along with others such as the Ohio Rail Development Commission and the Ohio Environmental Protection Agency) between private entities and the Ohio Department of Transportation (ODOT) for participation in the Diesel Emissions Reduction Grant (DERG) program. Private entities, and in some cases, public entities, are responsible for developing and presenting potential projects meeting criteria for participation in the program and then applying for grant funding through the Authority as a "Public Sponsor". The Authority submits application on behalf of the company. If funding approval is obtained, expense reimbursement requests are forwarded by the private and/or public entities to the Authority for review and approval and are then forwarded to ODOT for payment. ODOT reimburses the private and/or public entities directly for eligible grant expenditures once funding is received from the U.S. Department of Transportation.

D. Measurement Focus

Enterprise funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activities. Agency funds have no measurement focus.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Authority's financial statements are prepared using the accrual basis of accounting, including those of the agency fund.

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

F. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Authority, deferred outflows of resources are reported for pension, explained further in Note 8.

In additional to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow until that time. For the Authority, deferred inflows of resources are reported for pension, explained further in Note 8.

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.

During 2017, investments were limited to Federal Home Loan Banks (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal National Mortgage Association (FNMA) securities and a U.S. Government money market fund. Investments are reported at fair value.

H. Energy Loans Receivables

The Energy Strategy Development activity issued the first advanced energy loans during 2010. These loans are issued to various private companies whose proposed projects meet the eligibility requirements of the program under ORC Section 166.30. Subsequent payments of loan principal and service fees will be maintained by the Authority in an escrow account and remitted to the Development Services Agency (DSA) to fund future projects as well as to pay the program's contractual loan service agent. As such, the OAQDA is acting in an administrative function only related to monitoring, tracking and accounting for the individual energy loans issued.

Energy loans receivables are reported net of an allowance for doubtful accounts. The allowance amount is determined through the constant monitoring by the OAQDA of the payment history and credit worthiness of each individual borrower until the respective loans are repaid in full. Given the unique nature of the energy loans and the certain financial interest the DSA has in them, the OAQDA applies DSA criteria to determine allowance amounts. Factors considered include missed loan payments, other defaults by the specific borrower, and any other financial or operational issues facing the specific borrower the OAQDA deems appropriate. The guidelines established for establishing allowance amounts for doubtful accounts include the following:

Factors/Condition	Allowance Guideline
Assignment to Attorney General, with possible asset recovery	50%
Bankruptcy by borrower	100%
Loss of collateral, personal guarantors/termination of business	100%
Loss of major contracts/suppliers	75%
Excessive deferrals of payments (3 or more)	50%
Excessive nonsufficient funds activity (90 day defaults)	45%
Failure to decrease principal balance within 2 years of contract	50%
Request to raise additional capital/potential major contract	35%

Increase in the allowance for doubtful accounts will be reported as an operating expense of the Energy Strategy Development activity as the loan program is a primary function of the activity. As such, any decreases in the allowance for doubtful accounts for the year will be reported as a component of Energy Loan operating income to ensure all adjustments of the allowance account effect operating income of the Energy Strategy Development activity.

I. Restricted Assets

Restricted cash and cash equivalent and accounts receivable represents the escrow account established for the receipt of payments associated with the energy loans, including principal and interest. As noted above, these funds will be remitted to the DSA at a future date to fund future projects.

J. Capital Assets

Capital assets are recorded at cost and capitalized if the purchase price is $500 or more. Depreciation is computed using the straight-line method over lives ranging from three to ten years. The Authority's capital assets and accumulated depreciation balances at December 31, 2017, was $90,430 and $89,138, respectively.

K. Enterprise Fund Revenue

Project Administrative Fees

In the Air Quality Development Activity, 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 administrative fees as revenue on the date the bond or note is sold since the fee is not legally due to the Authority until that time.

Energy Operations Fees

For the Energy Strategy Development Activity, operating revenues to administer the program are derived from agreed upon assessments on other state agencies. From these fees, it is anticipated the Authority will pay all general operating and administrative costs associated with promoting advanced energy technologies by making loans available for qualifying projects. In addition, Energy Loan income (interest, fees, and adjustments on loans) is reported as a component of operating revenues given the significance of the financial activity associated with the Energy Loan program to the Energy Strategy Development activity as a whole.

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, funding from the Ohio Environmental Protection Agency, and interest and fees received in association with repayment of energy loans as operating revenues. State assistance received through bond proceeds and grants as well as interest earned from investments are reported as non-operating revenues.

L. Loan Incentive Expense

Certain individual energy loan agreements contain incentive clauses which, if met, will forgive a certain amount of the respective loan amount. Upon presentation by the program’s contractual loan service agent and after final approval by the OAQDA Director, any such forgiveness due to incentives met is recognized as an expense within the current year. In addition, the amount forgiven will reduce the respective loan balances progressing from the last scheduled repayment amount. During 2017, there were no loan repayments forgiven.

M. Accrued Wages and Benefits

Accrued wages consist of wages payable to Authority employees as of December 31, 2017. The accrued wages balance consists of $9,114 owed to employees for work performed during the fiscal year but which they were not compensated until the subsequent year.

N. Compensated Absences

Each pay period, the Authority pays a required percentage into a separate State of Ohio fund established to provide for future payment of leave time and severance payments for all state employees. As a result of this current payment, the Authority reports no liabilities related to compensated absences.

O. Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

P. 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 years.

Q. Interfund Activity

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

R. Change in Accounting Esimates

The Authority made a change in accounting estimate during the year associated with its allocation of net pension liabilities and related deferrals; no longer allocating amounts to the energy strategy development program since it no longer incurred salary and benefit expenses for the second half of the year. The effect of the change was to account for as miscellaneous revenue in the energy strategy development program and salaries and employee benefits expense in the air quality development program. The assumption of the additional net pension liabilities and related deferrals by the air quality development program was eliminated in the statement of revenues, expenses and changes in net position to avoid double counting of expenses previously recognized by the Authority.

S. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

3. CHANGE IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2017, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, and GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*

GASB Statement No. 74 will enhance the note disclosures and RSI schedules required by OPEB plans that are administered through trusts that meet the defined criteria.

GASB Statement No. 80 amends the blending requirements of paragraph 53 of GASB Statement No. 14 to include blending of a component unit, incorporated as a not-for-profit corporation, in which the reporting government is the sole corporate member.

GASB Statement No. 81 enhances the comparability in reporting for irrevocable split-interest agreements where the government is a beneficiary, including how to establish government's value and clearly identifying resources available to the government.

GASB Statement No. 82 Statement improves financial reporting by enhancing consistency in the application of financial reporting requirements related to certain pension issues, including presentation of payroll-related measures in RSI, selection of assumptions, and classification of employer-paid member contributions.

The implementation of all the Standards noted above, had no effect on the beginning net position reported by the Authority.

4. DEPOSITS AND INVESTMENTS

Deposits:
At fiscal year end, the carrying amount of the Authority's deposits was $4,891,535 and the depository balance was $4,891,535. The Authority's deposits at year-end consisted of the following:

Deposits with Treasurer of State of Ohio:		
Operating - Payroll Clearing	$ 38,265	
Small Business Ombudsman	749,954	
Small Business Assistance	1,706,697	
Advanced Energy R&D Taxable Bonds	2,307	
Total on Deposit with Treasurer of State		$ 2,497,223
Deposits with Financial Institutions:		
Trust - Bank Money Market Funds	2,275,073	
Checking Account - Loan Repayment Holding	119,239	
Total on Deposit with Financial Institutions		2,394,312
Total Deposits		$ 4,891,535

Deposits with the Treasurer of State are not subject to the classification of custodial credit risk. The bank money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form. Of the $119,239 deposits in checking and escrow accounts; the entire balance was insured by the Federal Deposit Insurance Corporation (FDIC).

Investments:
The Investment Policy adopted by the Board provides investment guidance for the investments of the Air Quality program. The objective of the Investment Policy is to comply with all federal and state laws, as well as to ensure safety of principal amounts invested. Investments are generally limited to United States Treasury or Agency obligations, no-load mutual funds, and bonds or obligations of the State of Ohio or any other Ohio political subdivision. Mutual funds must be rated in the highest category by at least one nationally recognized rating agency and Ohio based obligations must have a minimum credit rating in the two highest categories by two nationally recognized rating agencies at the time of purchase. The Investment Policy limits the total investment in any one issuer that is not a U.S Treasury or Agency, to not more than 5% of the total average portfolio.

As of December 31, 2017, the Authority had the following investments:

		Investment Maturities in Years			Concentration
Investment Type	Measurement Value	1 Year or Less	2 to 3 Years	4 to 5 Years	of Credit Risk
FHLB	$ 582,478	$ 299,270	$ 247,721	$ 35,487	10.04%
FFCB	1,230,086	348,812	588,298	292,976	21.21%
FHLMC	945,760	496,492	449,268	-	16.31%
FNMA	2,687,780	598,633	1,161,792	927,355	46.34%
Treasury Money Market	353,670	353,670	-	-	6.10%
Totals	$ 5,799,774	$ 2,096,877	$ 2,447,079	$ 1,255,818	100.00%

Credit Risk: At December 31, 2017 the FHLB, FFCB, FHLMC and FNMA obligations were rated AA+ and the Treasury Money Market was rated AAAm by Standard and Poor's.

Custodial Credit Risk: The Investment Policy of the Authority requires investments to be delivered to, and held in safekeeping by a custodian bank that is qualified and experienced in providing custodial services to institutional investors, specifically public entities.

Interest Rate Risk: The Authority's Investment Policy attempts to minimize interest rate risk by maintaining adequate liquidity, diversifying maturities and diversifying assets. Investments are limited to those with maturities of five years or less.

Fair Value Measurement:
As of December 31, 2017, the Authority categorizes fair value measurements of its negotiable investments in one of three categories: Level 1 - inputs are quoted prices in active markets for identical assets; Level 2 – inputs are significant other observable inputs such as quoted prices for similar assets in active markets; Level 3 – inputs are significant unobservable inputs. All of the Authority's negotiable investments are categorized as Level 2 as values are obtained from trustees who use various pricing services.

5. ENERGY LOANS RECEIVABLE

As of December 31, 2017, the Authority reports $1.7 million of advanced energy loans outstanding, which is net of $1.4 million in allowance for doubtful accounts, to various companies to finance energy conservation projects. Details of the loan receivables are as follows:

Loan Receivable	Year Loan Approved	Interest Rate	Approved Loan Amount	Loan Amount Outstanding	Scheduled Maturity
Evergreen (Ohio Cooperative Solar)	2010	1.00%	$ 1,530,000	$ 218,430	2018
Technology Management Inc.	2010	2.00%	2,537,500	2,537,500	2017
SCI Engineering Materials	2011	3.00%	1,365,780	49,811	2018
SoCore Solar Energy	2011	1.50%	5,237,400	262,285	2019
Gross Total			$ 10,670,680	3,068,026	
Less: Allowance for Doubtful Accounts				(1,367,043)	
Net Energy Loans Receivable				$ 1,700,983	

Once approved, project loan amounts are deposited into the appropriate escrow accounts awaiting disbursement. During 2017, there were no new projects approved, nor any disbursements for previously approved projects, made out of these escrow accounts (addition to loans outstanding). During the year $626,404 of principal repayments (reduction in loans outstanding) were received. Each loan payment includes a loan servicing fee. As loan payments are received by OAQDA, repayment amounts will be deposited into a separate bank account and be subsequently remitted to the DSA in accordance with the requirements of the Advanced Energy Loan Program.

Provisions of the individual loan agreements include forgiveness of a portion of outstanding loan principal should the companies meet certain job creation targets. The amounts of the loan principal to be forgiven are set on a loan to loan basis and range from $100,000 to $3.3 million. During 2017 there were no loans outstanding forgiven.

During 2017, the Authority declared one loan to be in default and as such, assigned the collection of this loan agreement to the Attorney General's Office for collection. The Authority followed established policy in establishing the appropriate allowance amount within the financial statements due to the above noted default as well as excessive deferrals on a separate loan at year end.

At December 31, 2017, all of the $1,700,983 in energy loans are considered due within one year ($3,068,026 in gross loans less $1,367,043 in allowance for doubtful accounts).

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Office equipment	$ 90,430	$ -	$ -	$ 90,430
Less accumulated depreciation for:				
Office equipment	(88,065)	(1,073)	-	(89,138)
Total capital assets, net	$ 2,365	$ (1,073)	$ -	$ 1,292

7. OPERATING LEASES

The Authority has entered into lease agreements for office space and a copier. 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 2017 was $68,685. The terms of the leases are not anticipated to change significantly in future fiscal years.

8. DEFINED BENEFIT PENSION PLAN

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pension benefits. Pension benefits are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pension benefits are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pension benefits is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Authority's proportionate share of the pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plan to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, the pension plan's Board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to net pension liability would be effective when the changes are legally enforceable.

The proportionate share of the pension plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

Plan Description and Plan Benefits
OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS's fiduciary net position. That report can be obtained by visiting https://www.opers.org/about/finance/index.shtml.

The Traditional Pension Plan. The Traditional Pension Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary. The pension benefits are funded by both member and employer contributions, and investment earnings on those contributions.

The Combined Plan. The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Pension Plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

The Member–Directed Plan. The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Upon retirement or termination, the member may choose a defined contribution retirement distribution, or may elect to use his/her defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Plan benefits, and any benefit increases, are established by legislature pursuant to Chapter 145 of the Ohio Revised Code. The Board of Trustees, pursuant to Chapter 145, has elected to maintain funds to provide health care coverage to eligible Traditional Pension and Combined plan retirees and survivors of members. Health care coverage does not vest and is not required under Chapter 145. As a result, coverage may be reduced or eliminated at the discretion of the Board.

Senate Bill (SB) 343 enacted into law new legislation with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Age and Service Defined Benefits. Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary, and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 months of service credit or at age 55 with 25 or more years of service credit. Members in transition Group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. The final average salary represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on an average of the five highest years of earnings over a member’s career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Benefits in the Combined Plan consist of both an age and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member’s final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member’s final average salary for the first 35 years of service and a factor of 1.25% is applies to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions, plus or minus any investment gains or losses on those contributions.

Defined Contribution Benefits. Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-Directed Plan and Combined Plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan was discussed above. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the member's contributions, vested employer contributions and investment gains and losses resulting from the member's investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of the entire account balance, net of taxes withheld, or a combination of these options.

Funding Policy
The OPERS funding policy provides for periodic employee and employer contributions to all three plans at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of OPERS' external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2017. Plan members were required to contribute 10% of covered payroll. The Authority contribution rate was 14% of covered payroll.

The Authority's contractually required pension contributions to OPERS for 2017 was $39,581, including $1,296 to the Member-Directed Plan option.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension
The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. For reporting purposes, the Authority combined the amounts for both the Traditional and Combined plans, due to insignificance of the amounts that related to the Combined Plan. The Authority reported a net pension liability of $286,386 as its proportionate share. The Authority's proportion was 0.0013242% for the traditional Plan and 0.0257210% for the Combined Plan, which represent an increase of 0.0001055% and a decrease of 0.0011192% from the proportionate share of the prior year, respectively. The Authority recognized $57,603 in pension expense for 2017.

Other than contributions made subsequent to the measurement date and differences between projected and actual earnings on investments; deferred inflows/outflows of resources are recognized in pension expense beginning in the current period, using a straight-line method over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions, determined as of the beginning of the measurement period. Net deferred inflows/outflows of resources pertaining to the differences between projected and actual investment earnings are similarly recognized over a closed five-year period. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Net Deferred Outflows/ (Inflows) of Resources
Authority contributions subsequent to measurement date	$ 38,285	$ -	$ 38,285
Net difference between projected and actual investment earnings (1)	48,273	-	48,273
Change in assumptions	51,182	-	51,182
Differences between expected and actual experence (1)	407	(9,111)	(8,704)
Change in the Authority's proportionate share and differences in contributions	11,545	(10,715)	830
	$ 149,692	$ (19,826)	$ 129,866

(1) - Information provided by OPERS

$38,285 reported as deferred outflows of resources relate to pension resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows and deferred inflows related to pension will be recognized in pension expense as follows:

	Deferred Outflows	Deferred (Inflows)	Pension Expense
Year Ending December 31:			
2018	$ 45,937	$ (11,753)	$ 34,184
2019	45,937	(2,769)	43,168
2020	18,035	(1,009)	17,026
2021	454	(2,322)	(1,868)
2022	585	(1,009)	(424)
Thereafter	1,772	(2,277)	(505)
	$ 112,720	$ (21,139)	$ 91,581

Actuarial Assumptions
Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

	Traditional Plan	Combined Plan
Investment rate of return	7.50%	7.50%
Wage inflation	3.25%	3.25%
Projected salary increases	3.25% - 10.75% (includes wage inflation at 3.25%)	3.25% - 8.25% (includes wage inflation at 3.25%)
Cost-of-living adjustments:		
Pre 1/7/2013 Retirees	3.00% simple	3.00% simple
Post 1/7/2013 Retirees	3.00% simple through 2018, then 2.15% simple	3.00% simple through 2018, then 2.15% simple
Actuarial cost method	Individual entry age	Individual entry age

Source: OPERS 2016 CAFR

** See notes to required supplementary information on change of assumptions that impacted the December 31, 2016 actuarial valuation.

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust Portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.75%
Domestic Equities	20.70%	6.34%
Real Estate	10.00%	4.75%
Private Equity	10.00%	8.97%
International Equities	18.30%	7.95%
Other Investments	18.00%	4.92%
Total	100.00%	5.66%

Source: OPERS 2016 CAFR

Discount Rate: The discount rate used to measure the total pension liability was 7.5% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following chart represents the Authority's proportionate share of the net pension liability at the 7.5% discount rate as well as the sensitivity to a 1% increase and 1% decrease in the current discount rate:

	1% Decrease (6.50%)	Current Discount Rate of 7.50%	1% Increase (8.50%)
Authority's proportionate share of the net pension liability	$ 460,417	$ 286,386	$ 142,392

Source: OPERS 2016 CAFR multiplied by Authority's proportionate share

9. OTHER POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) –a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2017, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 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. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code (ORC) permits, but does not require, OPERS to provide OPEB benefits to its eligible recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642, or by calling 800-222-7377.

Funding Policy

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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, the Authority contributed at a rate of 14.0% of earnable salary. 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 Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional and combined plans was 1.0% during calendar year 2017. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the numbered 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, 2017, 2016 and 2015 were $3,209, $4,611 and $6,246, respectively, and are equal to 100% of the required contributions for each year.

10. LONG-TERM OBLIGATIONS

The change in the Authority's long-term obligations for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Net Pension Liability	$ 198,034	$ 88,352	$ -	$ 286,386

REQUIRED SUPPLEMENTARY INFORMATION

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST FOUR MEASUREMENT YEARS (1), (2)

	2017	2016	2015	2014
Authority's Proportion of the Net Pension Liability:				
Traditional Plan	0.001324%	0.001219%	0.001571%	0.001571%
Combined Plan	0.025721%	0.026840%	0.028929%	0.028929%
Authority's Proportionate Share of the Net Pension Liability (Asset)	$ 286,386	$ 198,034	$ 178,341	$ 182,164
Authority's Covered - Employee Payroll (3)	$ 327,933	$ 312,275	$ 310,667	$ 257,092
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	87.33%	63.42%	57.41%	70.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability:				
Traditional Plan	77.25%	81.08%	86.45%	86.36%
Combined Plan	116.55%	116.90%	114.83%	104.56%

Source: OPERS information with exception of the covered-employee payroll which was derived from the Authority's financial records.

(1) Information presented based on measurement periods ended December 31.

(2) Information prior to 2013 is not available.

(3) Covered-employee payroll broken down by plan (Traditional vs. Combined) was not available.

Note: 2016 Measurement Change in Assumptions:
a) Discount rate from 8.0% to 7.5%
b) Wage inflation from 3.75% to 3.25%
c) Price inflation from 3.0% to 2.5%

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST SEVEN YEARS (1)

	2017	2016	2015	2014	2013	2012	2011
Contractually Required Contributions (2)	$ 39,581	$ 39,352	$ 37,473	$ 37,280	$ 33,422	$ 22,869	$ 26,034
Contributions in Relation to the Contractually Required Contributions	$ (39,581)	$ (39,352)	$ (37,473)	$ (37,280)	$ (33,422)	$ (22,869)	$ (26,034)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority Covered-Employee Payroll	$ 304,469	$ 327,933	$ 312,275	$ 310,667	$ 257,092	$ 228,690	$ 260,340
Contributions as a Percentage of Covered-Employee Payroll	13.00%	12.00%	12.00%	12.00%	13.00%	10.00%	10.00%

Source: Authority's financial records.

(1) Represents employer's calendar year. Information prior to 2011 was not practically available. The Authority will continue to present information for years available until a full ten-year trend is compiled.

(2) Information broken down by plan type (Traditional vs. Combined) was not available.

SUPPLEMENTARY INFORMATION

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and cash equivalents	$ -	$ 387,870	$ 387,870	$ -
Total Assets	$ -	$ 387,870	$ 387,870	$ -
Liabilities:				
Due to others	$ -	$ 387,870	$ 387,870	$ -
Total Liabilities	$ -	$ 387,870	$ 387,870	$ -

Rea & associates a brighter way

May 15, 2018

Ohio Air Quality Development Authority
Franklin County, Ohio
50 West Broad Street, Suite 1718
Columbus, OH 43215

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the 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, the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, Franklin County, Ohio as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 15, 2018, wherein we noted the financial statements of the Authority present activities that are attributable to only the transactions of the Authority as a component unit of the State of Ohio.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 26, 2018

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