OHIO AIR QUALITY DEVELPOMENT AUTHORITY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2013

Dave Yost • Auditor of State

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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

To the Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2013, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of December 31, 2013, and the respective changes in financial position and where applicable, cash flows,

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thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Authority's financial statements are intended to present the financial position and the changes in financial position and, where applicable, cash flows of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2014, or the changes in its financial position and, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 the Authority's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

September 12, 2014

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, 2013. 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 2013, 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, 2013 are as follows:

- Total net position of OAQDA decreased by $23.4 million in 2013 from the $59.8 million reported at December 31, 2012 to $36.4 million one year later. The majority of this decrease relates to the $19.4 million intrastate remittance of cash from the energy strategy development activity to the Ohio Development Services Agency (DSA) during 2013; the majority of the amount remitted to DSA was the transfer of the funds remaining from the previous sale of revenue bonds to fund future energy projects as determined by DSA.

- Total revenues of the OAQDA's enterprise activities decreased by just over $1.0 million or 41.1 percent compared to those reported for the prior year. While the revenue associated with project administration fees reported by the air quality development activity remained relatively steady, both the EPA fees and energy operations fees reported significant decreases as there were timing differences which resulted in two transfers of funds being received in 2012 compared with just one during 2013. Energy loan income decreased by $772,000 due as certain interest receivable accounts were classified as doubtful accounts due to the associated loans being certified over to the Attorney General's Office for collection. The vast majority of the decrease in investment earnings (88.4%) can be attributed to recognizing investments, purchased by the Authority in 2013, at fair value as of December 31, 2013.

- The total expenses of the two enterprise activities of OAQDA reported for 2013 was $24.9 million compared with the $4.3 million reported for 2012. The increase in intrastate remittances (noted above) account for $17.8 million of the $20.6 million increase in expenses reported for 2013. Other notable increases include; $2.5 million increase in doubtful accounts expense associated with a loan assigned to the Attorney General's Office for collection and the $750,000 increase in loan incentive expense that relate to forgiveness of loans receivable when certain target employment marks are met and the recognition of the expense will depend on when the targets are met and forgiveness is approved. The decrease in professional fees expense relate to fewer legal fees being incurred during 2013.

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 all of the assets and liabilities of OAQDA as well as the net position of the two enterprise activities as of December 31, 2013. 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.

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 2013 and 2012, respectively.

TABLE 1
NET POSITION

	2013	2012	Dollar Change	Percent Change
Assets:				
Current and Other Assets	$ 37,784,829	$ 60,526,750	$ (22,741,921)	-37.57%
Capital Assets, Net	6,672	7,480	(808)	-10.80%
Total Assets	37,791,501	60,534,230	(22,742,729)	-37.57%
Liabilities				
Current and Other Liabilities	1,387,837	686,835	701,002	102.06%
Total Liabilities	1,387,837	686,835	701,002	102.06%
Net Position:				
Invested in Capital Assets	6,672	7,480	(808)	-10.80%
Restricted:				
Existing Advanced Energy Projects	24,654,748	48,192,290	(23,537,542)	-48.84%
Ohio Development Services	256,730	314,747	(58,017)	-18.43%
Program administration	3,200	3,467	(267)	-7.70%
Unrestricted	11,482,314	11,329,411	152,903	1.35%
Net Position	$ 36,403,664	$ 59,847,395	$ (23,443,731)	-39.17%

As displayed in Table 1, the OAQDA reported a net position of $36.4 million at December 31, 2013 compared to the $59.8 million reported for the prior year. Net position at year-end restricted for specific purposes totaled $24.9 million; $24.7 million for existing advanced energy projects and approximately $260,000 for required remittances associated with Energy Strategy Development activity. At December 31, 2013 the unrestricted net position of the air quality development activity represents nearly 13 times the total annual operating expenses for the activity.

Overall total net position of OAQDA decreased by $23.4 million in 2013; net position of the air quality development activity increased by $199,000 while the net position of the energy strategy development activity decreased by $23.6 million. The increase in the net position of the air quality development activity during the year resulted as fewer research grants were awarded and funded during 2013 compared with 2012. The decrease in the net position of the energy strategy development activity resulted from the transfer of $18.1 million of unobligated cash balance remaining in the State fund or sub-funds, established to account for the proceeds of the 2012 sale of State of Ohio revenue bond obligations to the Ohio Development Services Agency (DSA) to comply with Senate Bill 315, a $2.5 million increase in the allowance for doubtful accounts associated with a loan assigned to the Attorney General's Office for collection during 2013; and $1.9 million of forgiveness of loans receivable approved during the year when certain target employment marks were met.

Table 2 shows the changes in net position for the years ended December 31, 2013 and 2012.

TABLE 2
CHANGE IN NET POSITION

	2013	2012	Dollar Change	Percent Change
Operating Revenues:				
Project administration fees	$ 706,905	$ 680,652	$ 26,253	3.86%
EPA fees	384,866	424,027	(39,161)	-9.24%
Energy operation fees	176,175	362,194	(186,019)	-51.36%
Energy loan income	165,333	937,648	(772,315)	-82.37%
Miscellaneous	25,202	15,776	9,426	59.75%
Non-Operating Revenues:				
Investment earnings	7,852	67,888	(60,036)	-88.43%
Total Revenue	1,466,333	2,488,185	(1,021,852)	-41.07%
Operating Expenses:				
Salaries and benefits	350,904	353,244	(2,340)	-0.66%
Professional fees	325,541	512,681	(187,140)	-36.50%
Travel	7,467	6,668	799	11.98%
Research grants/projects	214,202	480,814	(266,612)	-55.45%
Intrastate remittance	19,410,965	1,600,715	17,810,250	1112.64%
Administrative/office supplies	157,721	177,921	(20,200)	-11.35%
Depreciation	1,608	2,684	(1,076)	-40.09%
Rental	78,952	78,498	454	0.58%
Loan incentive	1,850,000	1,100,000	750,000	68.18%
Doubtful accounts	2,512,704	-	2,512,704	100.00%
Total Operating Expenses	24,910,064	4,313,225	20,596,839	477.53%
Change in net position	(23,443,731)	(1,825,040)	(21,618,691)	1184.56%
Net position, January 1	59,847,395	61,672,435	(1,825,040)	-2.96%
Net position, December 31	$ 36,403,664	$ 59,847,395	$ (23,443,731)	-39.17%

Total revenues of the OAQDA's enterprise activities decreased by $1.0 million or 41.1 percent compared to those reported for the prior year. The project administration fees reported by the air quality development activity increased by $26,000 over those reported for 2012 based on the amount of loans closed on during 2013. The remaining decrease in revenues resulted from the energy operation fees and energy loan income reported in the energy strategy development activity. Energy operation fees decreased by $186,000 over those of the prior year due to timing differences which resulted in two transfers of funds being received during calendar year 2012 compared with just one during calendar year 2013. Energy loan income decreased by $772,000 compared to the amount reported in the prior year as certain interest receivable accounts were classified as doubtful accounts due to the associated loans being certified over to the Attorney General's Office for collection. The vast majority of the decrease in investment earnings (88.4%) can be attributed to recognizing investments, purchased by the Authority in 2013, at fair value as of December 31, 2013.

The total expenses of the two enterprise activities of OAQDA reported for 2013 was $24.9 million compared with the $4.3 million reported for 2012. The increase in intrastate remittances (noted above) account for $17.8 million of the $20.6 million increase in expenses reported for 2013. Other notable increases include; $2.5 million increase in doubtful accounts expense associated with a loan assigned to the Attorney General's Office for collection and $750,000 increase in loan incentive expense that relate to forgiveness of loans receivable when certain target employment marks are met and the recognition of the expense will depend on when the targets are met and forgiveness is approved. The decrease in professional fees expense relate to fewer legal fees being incurred during 2013.

Capital Assets

At December 31, 2013, the OAQDA had a total of $90,430 invested in capital assets less accumulated depreciation of $83,758 resulting in total capital assets, net of accumulated depreciation of $6,672. No individually significant capital asset addition was recorded for 2013 and depreciation expense for the year totaled $1,608. Additional information on the OAQDA's capital assets can be found in Note 5 to the basic financial statements.

Financial Factors

The OAQDA is a "Public Sponsor" for companies applying for grant funding under the Diesel Emissions Reduction Grant (DERG). As of December 31, 2013, certain reimbursement requests for funding were received and reviewed, however, no funding of project expenses occurred during the calendar year. As such, no financial activity has been reported within these 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, 2013

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	$ 5,803,482	$ 7,804,109	$ 13,607,591
Investments	533,942	-	533,942
Cash and cash equivalents with fiscal agent	-	244,072	244,072
Accrued interest receivable:			
Income from loan interest, net of doubtful accounts	-	256,085	256,085
Investment income	4,148	-	4,148
Energy loans receivable, net of doubtful accounts	-	4,713,391	4,713,391
Due from other funds	828,099	-	828,099
Prepaid items	3,718	1,593	5,311
Restricted assets:			
Restricted cash and cash equivalents with fiscal agent	-	1,298,054	1,298,054
Accounts receivable	-	3,200	3,200
Total Current Assets	7,173,389	14,320,504	21,493,893
Noncurrent Assets:			
Investments	4,235,072	-	4,235,072
Energy loans receivable, net of doubtful accounts	-	12,055,864	12,055,864
Capital assets, net of accumulated depreciation	6,672	-	6,672
Total Noncurrent Assets	4,241,744	12,055,864	16,297,608
Total Assets	11,415,133	26,376,368	37,791,501
Liabilities:			
Current Liabilities:			
Accounts payable	30,732	17,003	47,735
Accrued wages and benefits	10,216	4,378	14,594
Due to other funds	-	828,099	828,099
Payable from restricted assets:			
Accounts payable	-	13,467	13,467
Intrastate payable	-	483,942	483,942
Total Liabilities	40,948	1,346,889	1,387,837
Net Position:			
Investment in net capital assets	6,672	-	6,672
Restricted for:			
Existing Ohio Advanced Energy Projects	-	24,654,748	24,654,748
Remittance to Ohio Development Services Agency	-	256,730	256,730
Remittance to program administrator	-	3,200	3,200
Unrestricted	11,367,513	114,801	11,482,314
Total Net Position	$ 11,374,185	$ 25,029,479	$ 36,403,664

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, 2013

	Air Quality Development	Energy Strategy Development	Total
Operating Revenues:			
Project administration fees	$ 706,905	$ -	$ 706,905
Small business ombudsman fees	234,202	-	234,202
Small business assistance program fees	150,664	-	150,664
Energy operation fees	-	176,175	176,175
Energy loan Income:			
Loan interest	-	152,133	152,133
Loan fees	-	13,200	13,200
Miscellaneous	25,202	-	25,202
Total operating revenues	1,116,973	341,508	1,458,481
Operating Expenses:			
Salaries and employee benefits	245,317	105,587	350,904
Professional fees	258,277	67,264	325,541
Travel	7,467	-	7,467
Research grants and projects	214,202	-	214,202
Intrastate remittance expense	-	19,410,965	19,410,965
Office supplies and other administrative expenses	110,330	47,391	157,721
Depreciation	1,608	-	1,608
Rental expense	55,266	23,686	78,952
Loan incentive expense	-	1,850,000	1,850,000
Doubtful account expense	-	2,512,704	2,512,704
Total operating expenses	892,467	24,017,597	24,910,064
Operating income (loss)	224,506	(23,676,089)	(23,451,583)
Nonoperating revenues:			
Investment earnings:			
Interest revenue	25,279	33,753	59,032
Change in fair value of investments	(51,180)	-	(51,180)
Total nonoperating revenues:	(25,901)	33,753	7,852
Change in net position	198,605	(23,642,336)	(23,443,731)
Net position, January 1, 2013	11,175,580	48,671,815	59,847,395
Net position, December 31, 2013	$ 11,374,185	$ 25,029,479	$ 36,403,664

See accompanying notes to the financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Air Quality Development	Energy Strategy Development	Total
Cash flows from operating activities:			
Receipts from customers	$ 706,905	$ 176,175	$ 883,080
Cash received from OEPA	384,866	-	384,866
Energy loans issued	-	(3,975,000)	(3,975,000)
Energy loans principal repayment	-	1,067,704	1,067,704
Interest received on energy loans	-	210,795	210,795
Energy loans fees received	-	13,467	13,467
Other operating revenues	25,202	-	25,202
Intrastate payments	-	(19,491,380)	(19,491,380)
Payments to suppliers and vendors	(671,582)	(117,968)	(789,550)
Payments to employees	(249,890)	(103,902)	(353,792)
Net cash provided (used) by operating activities	195,501	(22,220,109)	(22,024,608)
Cash flows from non-capital financing activities:			
Advances to other funds	(819,663)	(29,110)	(848,773)
Advances from other funds	29,110	819,663	848,773
Net cash provided (used) by non-capital financing activites	(790,553)	790,553	-
Cash flows from capital activities:			
Acquisition of capital assets	(800)	-	(800)
Net cash used by capital activities	(800)	-	(800)
Cash flows from investing activities:			
Purchase of investments	(5,569,639)	-	(5,569,639)
Sale of investments	749,445	-	749,445
Investment earnings	21,131	33,753	54,884
Net cash provided (used) by investing activities	(4,799,063)	33,753	(4,765,310)
Net decrease in cash and cash equivalents	(5,394,915)	(21,395,803)	(26,790,718)
Cash and cash equivalents - beginning of year	11,198,397	30,742,038	41,940,435
Cash and cash equivalents - end of year	$ 5,803,482	$ 9,346,235	$ 15,149,717
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 224,506	$ (23,676,089)	$ (23,451,583)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	1,608	-	1,608
Decrease in energy loans receivable	-	1,455,408	1,455,408
Decrease in accounts receivable	-	267	267
Decrease in loan interest receivable	-	58,662	58,662
(Increase) decrease in prepaid expense	2,174	(1,593)	581
Increase (decrease) in accounts payable	(35,681)	21,966	(13,715)
Increase in wages and benefits payable	2,894	1,685	4,579
Decrease in intrastate payable	-	(80,415)	(80,415)
Net cash provided (used) by operating activities	$ 195,501	$ (22,220,109)	$ (22,024,608)
Schedule of non-cash investing activities:			
Change in fair value of investments	$ (51,180)	$ -	$ (51,180)

See accompanying notes to the financial statements.

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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 unaudited aggregate amount of principal outstanding as of December 31, 2013 was approximately $2.4 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.

Diesel Emissions Reduction Grant Program

In 2011, the Authority passed a resolution to act as 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 them 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.

The Authority does not receive or disburse any funds under the DERG program, however as a “Public Sponsor” of the program it will record a pass through expense (non-operating expense) for reimbursement payments made through the program with an offsetting intergovernmental grant revenue (non-operating revenue) when those reimbursement payments are issued. As of December 31, 2013, there were several projects approved and forwarded to ODOT for funding under this program, however, no actual reimbursement of program expenses occurred during the year.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

The Authority's basic financial statements consist of proprietary fund statements as only proprietary activities exist at the Authority for the year ended December 31, 2013.

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 2013, the Authority had two enterprise funds (air quality development and energy strategy development programs). For the year, the Authority had no governmental or fiduciary fund types.

C. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. For 2013, the Authority reported no governmental or fiduciary funds.

Proprietary Funds

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

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

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

Energy Strategy Development – This fund accounts for the 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.

D. Measurement Focus

Enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net 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.

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.

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. Cash and Cash Equivalents

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

G. Cash and Cash Equivalents with Fiscal Agent

Cash and cash equivalents with fiscal agent represents escrow accounts established for each of the individual projects approved through the Energy Strategy Development activity. As projects are approved, OAQDA funds the respective escrow accounts with the entire amount approved for the respective projects. As the individual projects progress, payments from the escrow accounts are requested to fund the project. After the necessary approvals, payments are made from the appropriate escrow account and the energy loan balance for the respective project is increased by the same amount.

H. Advanced 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.

Advanced 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, interest and fees, as well as the amounts owed at year-end associated with the administration fees of the loans. As noted above, these funds will be remitted to the DSA at a future date to fund future projects, as well as to pay the program’s contractual loan service agent.

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, 2013, was $90,430 and $83,758, 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 fees as revenue on the date the bond or note is sold which approximates the date the fee is received, since the fee is not legally due 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 2013, there was two such incentive clauses approved which resulted in $1,850,000 of loan repayments being forgiven.

M. Accrued Wages and Benefits

Accrued wages consist of wages payable to Authority employees as of December 31, 2013. The accrued wages balance consists of $14,594 owed to employees for work performed during the fiscal year but which they were not compensated until the subsequent year.

N. Risk Management

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

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

O. Interfund Activity

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

3. DEPOSITS AND INVESTMENTS

Deposits:

At fiscal year end, the carrying amount of the Authority's deposits was $15,149,717 and the depository balance was $15,149,717. The Authority's deposits at year-end consisted of the following:

Deposits with Treasurer of State of Ohio:		
Operating - Payroll Clearing	$ 38,384	
Small Business Ombudsman	1,056,546	
Small Business Assistance	3,382,300	
Energy Strategy Development	162,688	
Advanced Energy R&D Taxable Bonds	7,641,421	
Total on Deposit with Treasurer of State		$ 12,281,339
Deposits with Financial Institutions:		
Trust - Bank Money Market Funds	1,326,252	
Checking Account - Loan Repayment Holding	1,298,054	
Escrow Accounts - Loan Projects	244,072	
Total on Deposit with Financial Institutions		2,868,378
Total Deposits		$ 15,149,717

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 $1,542,126 deposits in checking and escrow accounts; $494,072 was insured by the Federal Deposit Insurance Corporation and the remaining $1,048,054 was subject to custodial credit risk as it was not covered by FDIC coverage or collateral.

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, 2013, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities in Years: 1 Year or Less	2 to 3 Years	4 to 5 Years	Concentration of Credit Risk
FHLB	$ 1,591,380	$ 499,820	$ 499,240	$ 592,320	33.37%
FHLMC	1,086,413	-	248,898	837,515	22.78%
FNMA	2,057,099	-	-	2,057,099	43.13%
Treasury Money Market	34,122	34,122	-	-	0.72%
Totals	$ 4,769,014	$ 533,942	$ 748,138	$ 3,486,934	100.00%

Credit Risk: At December 31, 2013 the FHLB, 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 maintain adequate liquidity, diversifying maturities and diversifying assets. Investments are limited to those with maturities of five years or less.

4. ENERGY LOANS RECEIVABLE

As of December 31, 2013, the Authority reports $16.8 million of advanced energy loans outstanding, which is net of $7.2 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
Buckeye Silicon	2010	2.00%	$ 1,428,000	$ 1,383,081	2017
Ohio Cooperative Solar	2010	1.00%	1,530,000	734,753	2016
Quasar Energy Group	2010	2.00%	3,045,000	1,691,876	2017
Technology Management Inc.	2010	2.00%	2,537,500	2,297,500	2015
Wayne Trail Technologies	2010	2.00%	838,440	179,691	2015
Willard & Kelsey	2010	3.66%	10,000,000	5,100,000	2012
Xunlight	2010	2.00%	4,060,000	4,060,000	2018
SCI Engineering Materials	2011	3.00%	1,365,780	282,786	2018
SoCore Solar Energy	2011	1.50%	5,237,400	2,487,272	2019
Stark County	2011	3.00%	1,500,000	750,000	2021
Isofoton North America	2012	2.00%	5,000,000	5,000,000	2019
Gross Total			$ 36,542,120	23,966,959	
Less: Allowance for Doubtful Accounts				(7,197,704)	
Net Energy Loans Receivable				$ 16,769,255	

Once approved, project loan amounts are deposited into the appropriate escrow accounts awaiting disbursement. There were no new projects approved during 2013. Disbursements, for previously approved projects, out of these escrow accounts (addition to loans outstanding) totaled $4.0 million during the year and $1.1 million 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 2013, $1.9 million in loans outstanding were forgiven as the respective borrowers met the incentive clauses contained within the respective agreements.

At December 31, 2013 $4,713,391 of energy loans are considered due within one year ($8,386,260 in gross loans less $3,672,869 in allowance for doubtful accounts) and $12,055,864 are considered due in more than one year ($15,580,699 in gross loans less $3,524,835 in allowance for doubtful accounts).

Similar to the allowance established for the energy loans receivable, the Authority has established an allowance for doubtful accounts associated with accrued interest receivable associated with those loans. At December 31, 2013, the Authority reported total accrued loan interest receivable in the amount of $495,070 less an allowance for doubtful accounts of $238,985.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Office equipment	$ 89,630	$ 800	$ -	$ 90,430
Less accumulated depreciation for:				
Office equipment	(82,150)	(1,608)	-	(83,758)
Total capital assets, net	$ 7,480	$ (808)	$ -	$ 6,672

6. OPERATING LEASES

The Authority has entered into lease agreements for office space, computers, copier and a postlink system. Leased properties not having the elements of ownership are classified as operating leases and are recorded as expenses when payable. Total operating lease expense for 2013 was $78,952. The terms of the leases are not anticipated to change significantly in future fiscal years.

7. PENSION PLAN

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642, or by calling 800-222-7377.

For the year ended December 31, 2013, the members of all three plans were required to contribute 10.0% of their annual covered salaries. The total employer's contribution rate for pension benefits for 2013 was 14.00%. The Ohio Revised Code provides statutory authority for member and employer contributions. Total required employer contributions for pension obligations were $33,422, $22,869 and $26,034 for the years ending December 31, 2013, 2012, and 2011, respectively, and are equal to 100% of the amount billed to, and paid by, the Authority.

8. OTHER POST-EMPLOYMENT BENEFITS

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS 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 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans, as recommended by the OPERS Actuary. 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, 2013, 2012 and 2011 were $2,571, $9,147 and $10,413, respectively, and are equal to 100% of the required contributions for the each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions towards the health care fund after the end of the transition period.

9. INTERFUND ACTIVITY

At December 31, 2013, the energy strategy development program owed the air quality development activity a total of $828,099; $800,000 for a cash advance used to ensure minimum bank balances were maintained and $28,099 for its share of the overhead operating expenses for the third and fourth quarters of 2013. The reimbursement of these funds is anticipated to occur during calendar year 2014.

10. CHANGE IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2013, the Authority adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The implementation of these statements did not have an effect on the Authority's financial statements for the current year.

In addition, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* has been issued by the Governmental Accounting Standards Board but is not required to be implemented by the Authority until calendar year 2015. Management has not yet determined the impact this new GASB Standard will have on the Authority's financial statements.

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

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

To the Authority:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and each major fund of the Ohio Air Quality Development Authority (the Authority) a component unit of the State of Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 12, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated September 12, 2014.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

September 12, 2014

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
SEPTEMBER 30, 2014