



Dave Yost • Auditor of State



OHIO AIR QUALITY DEVELOPMENT AUTHORITY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Ohio Air Quality Development Authority  
50 W. 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, 2012, 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, 2012, and the respective changes in financial position and where applicable, cash flows, 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 only that portion of the business-type activities of the Authority that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2013, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **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 October 31, 2013, on our consideration of the Ohio Air Quality Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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

October 31, 2013

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(Unaudited)

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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, 2012. 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 2012, 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 coordinating the development of a comprehensive and coordinated state energy strategy as well as 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, 2012 are as follows:

- Total net position of OAQDA decreased by \$1.8 million in 2012 from the \$61.7 million reported at December 31, 2011 to \$59.9 million one year later. The majority of this decrease relates to the \$1.6 million intrastate remittance of cash from the energy strategy development activity to the Ohio Development Services Agency (DSA) during 2012. All repayments of loan principal and interest are required, by legislation, to be transmitted to DSA to fund future energy projects as determined by DSA.
- Total revenues of the OAQDA's enterprise activities increased by \$1.2 million or 92.9 percent over those reported for the prior year. The project administration fees reported by the air quality development activity increased by \$332,000 over those reported for 2011 based on the amount of loans closed on during 2012. The remaining increase in revenues resulted from the energy operation fees and energy loan income reported in the energy strategy development activity. Energy operation fees increased by \$350,000 over those of the prior year as state department allocation was once again received in 2012 but was not received in 2011. Energy loan income increased by \$561,000 due to increased payments made on the loans receivable as well as the recognition of a positive adjustment in the allowance for doubtful accounts on a loan deemed as a doubtful at December 31, 2012.
- The total expenses of the two enterprise activities of OAQDA reported for 2012 was \$4.3 million compared with the \$7.2 million reported for 2011. In 2011, OAQDA recognized \$5.1 million in expense associated with doubtful energy loans compared with a positive adjustment of \$390,000 in 2012. This decrease in total expense was somewhat offset by increases in professional fees, intrastate remittance and loan incentive expenses. Professional fees increased due to higher legal and consulting fees. Intrastate remittances, which are legislative required, were first scheduled to begin in 2012. Loan incentive expense relates 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.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(Unaudited)

**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 funding 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, 2012. 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, 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 2012 and 2011, respectively.

**TABLE 1**  
**NET POSITION**

	2012	Restated 2011	Dollar Change	Percent Change
<i>Assets:</i>				
Current and Other Assets	\$ 60,526,750	\$ 62,344,975	\$ (1,818,225)	-2.92%
Capital Assets, Net	7,480	10,164	(2,684)	-26.41%
Total Assets	<u>60,534,230</u>	<u>62,355,139</u>	<u>(1,820,909)</u>	<u>-2.92%</u>
<i>Liabilities</i>				
Current and Other Liabilities	686,835	682,704	4,131	0.61%
Total Liabilities	<u>686,835</u>	<u>682,704</u>	<u>4,131</u>	<u>0.61%</u>
<i>Net Position:</i>				
Invested in Capital Assets	7,480	10,164	(2,684)	-26.41%
<i>Restricted:</i>				
Advanced Energy Projects	48,192,290	49,870,045	(1,677,755)	-3.36%
Ohio Development Services	314,747	-	314,747	100.00%
Program administration	3,467	1,466	2,001	136.49%
Unrestricted	<u>11,329,411</u>	<u>11,790,760</u>	<u>(461,349)</u>	<u>-3.91%</u>
Net Position	<u>\$ 59,847,395</u>	<u>\$ 61,672,435</u>	<u>\$ (1,825,040)</u>	<u>-2.96%</u>



**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(Unaudited)

As displayed in Table 1, the OAQDA reported a net position of \$59.9 million at December 31, 2012 compared with the \$61.7 million reported for the prior year. Net position at year-end restricted for specific purposes totaled \$48.5 million; \$48.2 million for advanced energy projects and approximately \$318,000 for required remittances associated with Energy Strategy Development activity.

Overall total net position of OAQDA decreased by \$1.8 million in 2012; net position of the air quality development activity decreased by \$237,000 while the net position of the energy strategy development activity decreased by \$1.6 million. The decrease in the energy strategy development activity resulted exclusively from the \$1.6 million intrastate remittance of cash from the advanced energy loan program to DSA in 2012. All repayment of loan principal and interest is required by legislation to be transmitted to DSA to fund future energy projects as determined by DSA. The decrease in the net position of the air quality development activity during the year was caused by the use of cash and cash equivalents to fund the operating deficit realized by the activity for the year.

Despite the decrease in net position reported for the air quality development activity, the total unrestricted net position at December 31, 2012 represents approximately eight times the total annual operating expenses for the activity.

Table 2 shows the changes in net position for the years ended December 31, 2012 and 2011.

**TABLE 2**  
**CHANGE IN NET POSITION**

	2012	Restated 2011	Dollar Change	Percent Change
<i>Operating Revenues:</i>				
Project administration fees	\$ 680,652	\$ 348,854	\$ 331,798	95.11%
EPA fees	424,027	435,188	(11,161)	-2.56%
Energy operation fees	362,194	11,713	350,481	2992.24%
Energy loan income	937,648	376,595	561,053	148.98%
Miscellaneous	15,776	29,358	(13,582)	-46.26%
<i>Non-Operating Revenues:</i>				
Investment earnings	67,888	88,491	(20,603)	-23.28%
Total Revenue	<u>2,488,185</u>	<u>1,290,199</u>	<u>1,197,986</u>	<u>92.85%</u>
<i>Operating Expenses:</i>				
Salaries and benefits	353,244	346,591	6,653	1.92%
Professional fees	512,681	213,915	298,766	139.67%
Travel	6,668	8,284	(1,616)	-19.51%
Research grants/projects	480,814	325,220	155,594	47.84%
Intrastate remittance	1,600,715	571,767	1,028,948	179.96%
Administrative/office supplies	177,921	289,814	(111,893)	-38.61%
Depreciation	2,684	4,355	(1,671)	-38.37%
Rental	78,498	64,846	13,652	21.05%
Loan incentive	1,100,000	264,400	835,600	316.04%
Doubtful accounts	-	5,074,687	(5,074,687)	-100.00%
Total Operating Expenses	<u>4,313,225</u>	<u>7,163,879</u>	<u>(2,850,654)</u>	<u>-39.79%</u>
Change in net position	(1,825,040)	(5,873,680)	4,048,640	-68.93%
Net position, January 1	<u>61,672,435</u>	<u>67,546,115</u>	<u>(5,873,680)</u>	<u>-8.70%</u>
Net position, December 31	<u>\$ 59,847,395</u>	<u>\$ 61,672,435</u>	<u>\$ (1,825,040)</u>	<u>-2.96%</u>

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(Unaudited)

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Total revenues of the OAQDA's enterprise activities increased by \$1.2 million or 92.9 percent over those reported for the prior year. The project administration fees reported by the air quality development activity increased by \$332,000 over those reported for 2011 based on the amount of loans closed on during 2012. The remaining increase in revenues resulted from the energy operation fees and energy loan income reported in the energy strategy development activity. Energy operation fees increased by \$350,000 over those of the prior year as state department allocation was once again received in 2012 but was not received in 2011. Energy loan income increased by \$561,000 due to increased payments made on the loans receivable as well as a current year positive adjustment in the allowance for doubtful accounts. In 2011, based on evaluation of individual loans outstanding, OAQDA established a \$5.1 million allowance for doubtful accounts which was netted against the reported loan receivables as of December 31, 2011. During 2012, modifications to loan terms, as well as improved financial and economic factor, resulted in OAQDA determining one loan, previously classified as a doubtful account, no longer met the criteria to be reported as such. The resulting positive adjustment in the allowance for doubtful accounts was reported as a component of loan income as the expense in the prior year was reported as an operating expense.

The total expenses of the two enterprise activities of OAQDA reported for 2012 was \$4.3 million compared with the \$7.2 million reported for 2011. In 2011, OAQDA recognized \$5.1 million in expense associated with doubtful energy loans compared with the positive adjustment in 2012 noted above. This decrease in total expense was somewhat offset by increases in professional fees, intrastate remittance and loan incentive expenses. Professional fees increased due to higher legal and consulting fees. Intrastate remittances, which are legislative required, were first scheduled to begin in 2012. Loan incentive expense relates 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.

### **Capital Assets**

At December 31, 2012, the OAQDA had a total of \$89,630 invested in capital assets less accumulated depreciation of \$82,150 resulting in total capital assets, net of accumulated depreciation of \$7,480. No individually significant capital asset addition was recorded for 2012 and depreciation expense for the year totaled \$2,684. Additional information on the OAQDA's capital assets can be found in Note 6 to the basic financial statements.

### **Subsequent Financial Events**

In January 2013, the Authority transferred \$18.1 million of unobligated cash balance remaining in the State fund or sub-funds, established to account for the proceeds of the 2011 sale of revenue bond obligations by the State of Ohio to DSA. This transfer was made to comply with the requirements of Senate Bill 315, adopted in July 2012.

In late 2012, the Authority was notified that it would act as the pass-through agent for the Diesel Emissions Reduction Grant (DERG) under the Clean Fuels Ohio program. As of December 31, 2012, certain applications for the grant funding were received, evaluated and approved. However, the Authority received no funding, and as such made no encumbrances, related to the program until calendar year 2013.

### **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, 2012**

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 11,198,397	\$ 25,950,355	\$ 37,148,752
Cash and cash equivalents with fiscal agent	-	4,223,071	4,223,071
Accrued interest receivable, net of doubtful accounts	-	314,747	314,747
Energy loans receivable, net of doubtful accounts	-	4,194,203	4,194,203
Due from other funds	37,546	-	37,546
Prepaid items	5,892	-	5,892
Restricted assets:			
Restricted cash and cash equivalents with fiscal agent	-	568,612	568,612
Accounts receivable	-	3,467	3,467
Total Current Assets	11,241,835	35,254,455	46,496,290
Noncurrent Assets:			
Energy loans receivable, net of doubtful accounts	-	14,030,460	14,030,460
Capital assets, net of accumulated depreciation	7,480	-	7,480
Total Noncurrent Assets	7,480	14,030,460	14,037,940
Total Assets	11,249,315	49,284,915	60,534,230
Liabilities:			
Current Liabilities:			
Accounts payable	66,413	4,249	70,662
Accrued wages and benefits	7,322	2,693	10,015
Due to other funds	-	37,546	37,546
Payable from restricted assets:			
Accounts payable	-	4,255	4,255
Intrastate payable	-	564,357	564,357
Total Liabilities	73,735	613,100	686,835
Net Position:			
Invested in capital assets	7,480	-	7,480
Restricted for:			
Ohio Advanced Energy Projects	-	48,192,290	48,192,290
Remittance to Ohio Development Services Agency	-	314,747	314,747
Remittance to program administrator	-	3,467	3,467
Unrestricted	11,168,100	161,311	11,329,411
Total Net Position:	\$ 11,175,580	\$ 48,671,815	\$ 59,847,395

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, 2012**

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Operating Revenues:			
Project administration fees	\$ 680,652	\$ -	\$ 680,652
Small business ombudsman fees	258,741	-	258,741
Small business assistance program fees	165,286	-	165,286
Energy operation fees	9,625	352,569	362,194
Energy loan Income:			
Loan interest	-	533,658	533,658
Loan fees	-	14,303	14,303
Adjustment for doubtful accounts	-	389,687	389,687
Miscellaneous	<u>15,776</u>	<u>-</u>	<u>15,776</u>
Total operating revenues	<u>1,130,080</u>	<u>1,290,217</u>	<u>2,420,297</u>
Operating Expenses:			
Salaries and employee benefits	273,337	79,907	353,244
Professional fees	441,055	71,626	512,681
Travel	6,668	-	6,668
Research grants and projects	480,814	-	480,814
Intrastate remittance expense	-	1,600,715	1,600,715
Office supplies and other administrative expenses	109,951	67,970	177,921
Depreciation	2,684	-	2,684
Rental expense	53,796	24,702	78,498
Loan incentive expense	<u>-</u>	<u>1,100,000</u>	<u>1,100,000</u>
Total operating expenses	<u>1,368,305</u>	<u>2,944,920</u>	<u>4,313,225</u>
Operating loss	(238,225)	(1,654,703)	(1,892,928)
Nonoperating revenues:			
Investment earnings	<u>1,147</u>	<u>66,741</u>	<u>67,888</u>
Total nonoperating revenues:	<u>1,147</u>	<u>66,741</u>	<u>67,888</u>
Change in net position	(237,078)	(1,587,962)	(1,825,040)
Net position, January 1, 2012 - Restated	<u>11,412,658</u>	<u>50,259,777</u>	<u>61,672,435</u>
Net position, December 31, 2012	<u>\$ 11,175,580</u>	<u>\$ 48,671,815</u>	<u>\$ 59,847,395</u>

See accompanying notes to the financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 680,652	\$ 352,569	\$ 1,033,221
Cash received from OEPA	424,027	-	424,027
Energy loans issued	-	(6,123,756)	(6,123,756)
Energy loans principal repayment	-	1,020,728	1,020,728
Interest received on energy loans	-	267,738	267,738
Energy loans fees received	-	12,302	12,302
Other operating revenues	25,401	-	25,401
Intrastate payments	-	(1,608,125)	(1,608,125)
Payments to suppliers and vendors	(1,056,139)	(178,604)	(1,234,743)
Payments to employees	<u>(271,085)</u>	<u>(78,648)</u>	<u>(349,733)</u>
Net cash used by operating activities	<u>(197,144)</u>	<u>(6,335,796)</u>	<u>(6,532,940)</u>
Cash flows from non-capital financing activities:			
Advances to other funds	(84,725)	(50,681)	(135,406)
Advances from other funds	<u>97,860</u>	<u>37,546</u>	<u>135,406</u>
Net cash provided (used) by non-capital financing activities	<u>13,135</u>	<u>(13,135)</u>	<u>-</u>
Cash flows from investing activities:			
Investment earnings	<u>1,147</u>	<u>66,741</u>	<u>67,888</u>
Net cash provided by investing activities	<u>1,147</u>	<u>66,741</u>	<u>67,888</u>
Net decrease in cash and cash equivalents	(182,862)	(6,282,190)	(6,465,052)
Cash and cash equivalents - beginning of year	<u>11,381,259</u>	<u>37,024,228</u>	<u>48,405,487</u>
Cash and cash equivalents - end of year	<u>\$ 11,198,397</u>	<u>\$ 30,742,038</u>	<u>\$ 41,940,435</u>
<u>Reconciliation of operating loss to net cash used by operating activities:</u>			
Operating loss	\$ (238,225)	\$ (1,654,703)	\$ (1,892,928)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	2,684	-	2,684
Increase in energy loans receivable	-	(4,392,715)	(4,392,715)
Increase in accounts receivable	-	(2,001)	(2,001)
Increase in interest receivable	-	(265,920)	(265,920)
(Increase) decrease in prepaid expense	(368)	1,042	674
Increase (decrease) in accounts payable	36,513	(15,348)	21,165
Increase in wages and benefits payable	2,252	1,259	3,511
Decrease in intrastate payable	<u>-</u>	<u>(7,410)</u>	<u>(7,410)</u>
Net cash used by operating activities	<u>\$ (197,144)</u>	<u>\$ (6,335,796)</u>	<u>\$ (6,532,940)</u>

See accompanying notes to the financial statements.

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# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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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, 2012 was approximately \$2.5 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.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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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.

## **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, 2012.

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 2012, 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.



# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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## 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 2012, 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 assets. 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.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

## **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 payment 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:

<u>Factors/Condition</u>	<u>Allowance Guideline</u>
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

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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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, 2012, was \$89,630 and \$82,150, 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 developing a state-wide energy savings strategy as well as promote advanced energy technologies by making grants available for qualifying projects.

In addition, beginning in 2012, OAQDA determine reporting Energy Loan income (interest, fees, and adjustments on loans) as a component of operating revenues was more appropriate than nonoperating 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.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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## 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 2012, there was one such incentive clause approved which resulted in \$1,100,000 of loan repayments being forgiven.

### **M. Accrued Wages and Benefits**

Accrued wages consist of wages payable to Authority employees as of December 31, 2012. The accrued wages balance consists of \$10,015 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. PRIOR PERIOD ADJUSTMENT**

During 2012, the Authority revised its capital asset policy to set the capitalization threshold at \$500 per individual item from the \$300 per individual item included in the previous policy. As a result of this change \$18,762 of furniture and equipment, along with \$16,518 of associated accumulated depreciation, no longer met the criteria to be capitalized. The elimination of these items resulted in the restatement of the beginning net position of the air quality development activity from \$11,414,902, previously reported at December 31, 2011, to \$11,412,658. In addition, the total net position of the Authority's enterprise operations were restated to \$61,672,435 as opposed to \$61,674,679 previously reported at the end of 2011.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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## 4. CASH AND CASH EQUIVALENTS

At fiscal year end, the carrying amount of the Authority's deposits was \$41,940,435 and the bank balance was \$41,940,435. The bank balance consists of the following:

Deposits with Treasurer of State: The Authority deposits cash with the Treasurer of State for purposes of reimbursement of the Authority's payroll costs which are paid through the State of Ohio's central accounting system. At December 31, 2012 the Authority had \$62,117 on deposit with the Treasurer of State.

Small Business Deposits with Treasurer of State: The Authority maintains small business funds with the Treasurer of State for the purpose of funding the Small Business Ombudsman and the Small Business Assistance programs described in the General Information section of the Notes. At December 31, 2012, the balances for the Small Business Ombudsman and the Small Business Assistance programs were \$1,053,089 and \$3,231,636, respectively.

Energy Strategy Development Deposits with Treasurer of State: The Authority maintains energy strategy development program funds with the Treasurer of State for the purpose of funding the Energy strategy development program described in the General Information section of the Notes. At December 31, 2012, the balance for the energy strategy development program was \$205,799 and the balance in the account in which bond proceeds were deposited into was \$25,744,556.

Bank Money Market Funds: Cash not deposited with the Treasurer of State were held in a money market account that invests in U.S. Treasury instruments (bills, notes, bonds). At December 31, 2012, the Authority had \$6,851,555 in money market funds held in a trust account in the name of the Authority. The money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form.

Restricted Deposits – Energy Strategy Development Account: Receipts from the collection of repayment of loan principal, as well as interest and fees on the loans, is deposited into a checking account established at a local financial institution. This demand account had a carrying value of \$568,612 at December 31, 2012 with a bank balance of the same amount. As the demand account is a noninterest-bearing account, the entire balance of \$568,612 was covered by the Federal Deposit Insurance Corporation (FDIC) and considered fully insured at December 31, 2012.

Deposits with Fiscal Agent - Energy Strategy Development Individual Projects Escrow Accounts: Upon approval, the entire amounts of the energy strategy loans are paid into separate escrow accounts established at a local financial institution. These accounts are in the name of both the Authority as well as respective borrower. At December 31, 2012, the deposits in these escrow accounts totaled \$4,223,071 of which \$751,716 was covered by the FDIC and the remainder was subjected to custodial credit risk as it was not covered by FDIC coverage or collateral.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

## 5. ENERGY LOANS RECEIVABLE

As of December 31, 2012, the Authority reports \$18.2 million of advanced energy loans outstanding, which is net of \$4.7 million in allowance for doubtful accounts, to various companies to finance energy conservation projects. Details of the loan receivables are as follows:

<u>Loan Receivable</u>	<u>Year Loan Approved</u>	<u>Interest Rate</u>	<u>Approved Loan Amount</u>	<u>Loan Amount Outstanding</u>	<u>Scheduled Maturity</u>
Buckeye Silicon	2010	2.00%	\$ 1,428,000	\$ 1,428,000	2017
Ohio Cooperative Solar	2010	1.00%	1,530,000	873,655	2016
Quasar Energy Group	2010	2.00%	3,045,000	2,117,944	2017
Technology Management Inc.	2010	2.00%	2,537,500	1,747,500	2015
Wayne Trail Technologies	2010	2.00%	838,440	347,339	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	326,329	2018
SoCore Solar Energy	2011	1.50%	5,237,400	3,833,896	2019
Stark County	2011	3.00%	1,500,000	-	2021
Isofoton North America	2012	2.00%	<u>5,000,000</u>	<u>3,075,000</u>	2019
Gross Total			<u>\$ 36,542,120</u>	22,909,663	
Less: Allowance for Doubtful Accounts				<u>(4,685,000)</u>	
Net Energy Loans Receivable				<u>\$ 18,224,663</u>	

During 2012, \$5.0 million of new projects approved and closed upon. This amount was deposited into the appropriate escrow accounts awaiting disbursement. Disbursements out of these escrow accounts (addition to loans outstanding) totaled \$6.1 million during the year and \$1.0 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 2012, \$1.1 million in loans outstanding were forgiven as the respective borrowers met the incentive clauses contained within the respective agreements.

At December 31, 2012 \$4,194,203 of energy loans are considered due within one year (\$7,458,203 in gross loans less \$3,264,000 in allowance for doubtful accounts) and \$14,030,460 are considered due in more than one year (\$15,451,460 in gross loans less \$1,421,000 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, 2012, the Authority reported total accrued loan interest receivable in the amount of \$546,815 less an allowance for doubtful accounts of \$232,068.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

## 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	<b>Restated Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b><u>Capital Assets:</u></b>				
Office equipment	\$ 89,630	\$ -	\$ -	\$ 89,630
Less accumulated depreciation for:				
Office equipment	(79,466)	(2,684)	-	(82,150)
Total capital assets, net	<u>\$ 10,164</u>	<u>\$ (2,684)</u>	<u>\$ -</u>	<u>\$ 7,480</u>

## 7. OPERATING LEASES

The Authority has entered into lease agreements for office space, computers, copier and a postlink system. Leased properties not having the elements of ownership are classified as operating leases and are recorded as expenses when payable. Total operating lease expense for 2012 was \$78,498. The terms of the leases are not anticipated to change significantly in future fiscal years.

## 8. 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 (614) 222-5601.

For the year ended December 31, 2012, 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 2012 was 14.00%. The Ohio Revised Code provides statutory authority for member and employer contributions. Total required employer contributions for pension obligations were \$22,869, \$26,034 and \$39,298 for the years ending December 31, 2012, 2011, and 2010, respectively, and are equal to 100% of the amount billed to, and paid by, the Authority.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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## 9. 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 2012, 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 plan was 4.0% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1.0%, 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 number of covered dependents and the coverage selected.

The portion of the Authority's contributions to OPERS used to fund post-employment benefits for the years ended December 31, 2012, 2011 and 2010 were \$9,147, \$10,413 and \$25,541, 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 18, 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.

## 10. INTERFUND ACTIVITY

At December 31, 2012, the energy strategy development program owed the air quality development activity \$37,546 for its share of the overhead operating expenses for the third and fourth quarters of 2012. The reimbursement of these funds is anticipated to occur during calendar year 2013.



# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2012

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## 11. CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2012, the Authority adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources*; and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

The implementation of these statements did not have a significant effect on the Authority's financial statements for the current year.

## 12. SUBSEQUENT EVENTS

On January 29, 2013, the final draw (\$1,925,000) was made on the Isofoton North American loan which was approved in March 2012. As a result of this draw, the total loan receivable for Isofoton North America totaled the approved loan amount, or \$5 million.

In January 2013, the Authority transfer \$18.1 million of unobligated cash balance remaining in the State fund or sub-funds, established to account for the proceeds of the 2011 sale of revenue bond obligations by the State of Ohio to DSA. This transfer was made to comply with the requirements of Senate Bill 315, adopted in July 2012.

In late 2012, the Authority was notified that it would act as the pass-through agent for the Diesel Emissions Reduction Grant (DERG) under the Clean Fuels Ohio program. As of December 31, 2012, certain applications for the grant funding were received, evaluated and approved. However, the Authority received no funding, and as such made no encumbrances, related to the program until calendar year 2013.

In 2010, the Authority entered into a loan with Technology Management Inc. (TMI) under the category of disruptive technology. The approved loan amount was \$2.6 million, however only \$1.7 million was actually drawn down for the project. A provision within the loan agreement calls for loan incentives (forgiveness) of 100 percent of the loan should defined job creation targets be realized. In May 2013, the Authority authorized the modification of this loan agreement and extended the deadline for the job creation target until September 2015.

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# Dave Yost • Auditor of State

## 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 W Broad St, 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, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 31, 2013.

### ***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 noted certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated October 31, 2013.

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 31, 2013

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDINGS

JANUARY 1, 2012 THROUGH DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-01	Financial Reporting and Policies and Procedures	Yes	

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# Dave Yost • Auditor of State

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 21, 2013**