



Dave Yost • Auditor of State

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Authority:

We have audited the accompanying financial statements of the governmental activities, 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, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Authority's financial statements are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental funds and business-type activities of the Authority that are attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2011, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Ohio Air Quality Development Authority as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011, on our consideration of the Ohio Air Quality Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis and the budgetary comparison information, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

June 24, 2011

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Unaudited)

This discussion and analysis section of the Ohio Air Quality Development Authority (OAQDA) annual financial report provides an overall review of OAQDA's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at OAQDA's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of OAQDA's financial performance.

OAQDA is responsible for the administration of four programs: Project Development and Financing; the Clean Air Resource Center; the Energy Strategy Development Program; and, the Ohio Coal Development Office. 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 finances 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 by the State of Ohio. The coal development activity is a State sponsored activity which provides funding for research and development projects to develop suitable uses for coal mined within the State. The aggregate of these programs is reported as a discretely presented component unit in the State of Ohio's comprehensive annual financial report (CAFR). Funding for the coal development activity is provided through the proceeds of general obligation bonds of the State of Ohio. These bonds, and annual debt service payments required to retire these bonds, are reported by the State of Ohio and therefore not included within the financial statements of OAQDA's coal development activity.

Financial Highlights

Key financial highlights for the year ended December 31, 2010 are as follows:

- Total net assets of OAQDA decreased by \$7.7 million in 2010 from the \$80.6 million reported at December 31, 2009 to \$72.9 million one year later; \$5.3 million in governmental activities and \$67.6 million in business-type activities.
- Governmental activities showed a decrease in net assets of \$36.1 million during 2010 primarily due to the return of \$32.3 million of state assistance received in the prior year. These funds were returned to the State of Ohio as the project the funds were originally provided for was cancelled and it was subsequently decided to defease the bonds issued to finance the project. Coal development grant payments of \$3.9 million during 2010 account for the balance of the decrease in net assets.
- Business-type activities reported an increase of net assets totaling \$28.4 million for 2010 due to \$27.8 million of state assistance received during the year to fund future projects and research associated with the Energy Strategy Development activity. Of the \$27.7 million received in the prior year to finance energy projects and research, \$23.4 million was loaned to various companies to finance energy conservation projects during 2010. Subsequent repayment of these loans will occur over a period of years and be remitted to the Ohio Department of Development.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Unaudited)

Using this Annual Financial Report

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

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

Reporting OAQDA as a Whole

Statement of Net Assets and the Statement of Activities

The statements of net assets and activities look at OAQDA as a whole, including all financial transactions, and answer the question, "How did we do financially during 2010?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Reporting OAQDA's Funds

Fund Financial Statements

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

Governmental Fund

The coal development activity is reported as a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the coal development activity. The relationship (or differences) between governmental activities (reported in the

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Unaudited)

Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements, however since the coal development activity has no long term assets or liabilities, no such reconciliation is necessary.

Proprietary Funds

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

The OAQDA as a Whole

Recall that the Statement of Net Assets provides the perspective of the OAQDA as a whole. In the case of the OAQDA, assets exceeded liabilities by a total of \$72.9 million at December 31, 2010.

Table 1 provides a summary of the OAQDA's net assets for 2010 compared to 2009:

TABLE 1
NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<i>Assets:</i>						
Current and Other Assets	\$ 5,577	\$ 41,459	\$ 67,613	\$ 39,260	\$ 73,190	\$ 80,719
Capital Assets, Net	-	-	17	21	17	21
Total Assets	<u>5,577</u>	<u>41,459</u>	<u>67,630</u>	<u>39,281</u>	<u>73,207</u>	<u>80,740</u>
<i>Liabilities</i>						
Current and Other Liabilities	<u>237</u>	<u>14</u>	<u>81</u>	<u>172</u>	<u>318</u>	<u>186</u>
Total Liabilities	<u>237</u>	<u>14</u>	<u>81</u>	<u>172</u>	<u>318</u>	<u>186</u>
<i>Net Assets:</i>						
Invested in Capital Assets	-	-	17	21	17	21
Restricted:						
Coal Research & Development	5,340	41,445	-	-	5,340	41,445
Advanced Energy Projects	-	-	55,679	27,738	55,679	27,738
Unrestricted	-	-	<u>11,853</u>	<u>11,350</u>	<u>11,853</u>	<u>11,350</u>
Net Assets	<u>\$ 5,340</u>	<u>\$ 41,445</u>	<u>\$ 67,549</u>	<u>\$ 39,109</u>	<u>\$ 72,889</u>	<u>\$ 80,554</u>

As displayed in Table 1, the OAQDA reported \$72.9 million in total net assets at December 31, 2010 compared with the \$80.6 million reported for the prior year. Of the \$72.9 million of net assets, \$5.3 million was attributed to State of Ohio financed coal development grant programs and the remaining \$67.6 million is reported in conjunction with the two business-type activities, Air Quality Development activity and Energy Strategy Development Program.

The increase in net assets for business-type activities (\$28.4 million) relates to the receipt of approximately \$27.8 million in bond proceeds from the State of Ohio to finance projects within the Energy Strategy Development activity. These revenues will be used to make loans to approved projects. Governmental activities showed a

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Unaudited)

decrease in net assets of \$36.1 million during 2010 primarily due to the return of \$32.3 million of state assistance received in the prior year. These funds were returned to the State of Ohio as the project the funds were originally provided for was cancelled and it was subsequently decided to defease the bonds issued to finance the project.

The State issues debt when cash is needed, not when projects are approved; therefore the cash balance and net assets associated with the two activities will fluctuate as loans and grant payments are made or bonds are issued. OAQDA's other activity, Air Quality Development, reported an increase in the net assets of nearly \$450,000, as revenues associated with the activity exceeded expenses.

Current assets of the OAQDA decreased by \$7.5 million due mostly to the return of \$32.3 million of state assistance previously reported for the Coal Development activity which was offset by the \$27.8 million in state financing received from the State of Ohio in the Energy Strategy Development activity, noted above. For 2010 OAQDA issued energy loans totaling \$23.4 million to various companies to finance energy conservation projects. Funding for these loans was provided in the prior year through the issuance of State of Ohio bonds totaling \$27.7 million. Subsequent repayment of these loans will occur over a period of years and be remitted to the Ohio Department of Development.

Table 2 shows the changes in net assets for the years ended December 31, 2010 and 2009.

TABLE 2
CHANGE IN NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<i>Program Revenue:</i>						
Charges for services	\$ -	\$ -	\$ 1,134	\$ 2,200	\$ 1,134	\$ 2,200
Operating grants	271	42,586	704	773	975	43,359
<i>General Revenue:</i>						
General state assistance	-	-	27,816	27,738	27,816	27,738
Investment earnings	239	40	147	1	386	41
Miscellaneous	-	3	5	1	5	4
Total Revenue	510	42,629	29,806	30,713	30,316	73,342
<i>Program Expenses:</i>						
Community and economic development	36,638	3,665	-	-	36,638	3,665
Air quality development	-	-	1,146	1,088	1,146	1,088
Clean energy program	-	-	198	271	198	271
Total Program Expenses	36,638	3,665	1,344	1,359	37,982	5,024
Transfers	23	40	(23)	(40)	-	-
Increase (Decrease) in Net Assets	<u>\$(36,105)</u>	<u>\$ 39,004</u>	<u>\$ 28,439</u>	<u>\$ 29,314</u>	<u>\$(7,666)</u>	<u>\$ 68,318</u>

The Air Quality Development activity collects administrative fees when it facilitates the issuance of revenue bonds; those fees are intended to cover administrative expenses over the life of each bond issue and are based upon the size of the issue. For 2010, the revenue from the administrative fees decreased over \$1.1 million compared to those reported for the prior year due to the timing associated when the revenue bonds were issued and the size of the bonds issued during the year. Operating grants are provided by the Ohio EPA for the Small Business Assistance and Ombudsman programs based on a fee imposed by the Ohio EPA. Intergovernmental non-

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Unaudited)

operating revenue for the Energy Strategy Development activity is associated with the receipt of the bond proceeds from the State previously mentioned.

The Coal Development activity continues to fund research and development projects throughout the State of Ohio. To finance these projects, the State of Ohio issues general obligation bonds and passes the proceeds thru to OAQDA to administer the programs. As the general obligation bonds and the subsequent debt service requirements on those bonds are direct obligations of the State of Ohio, not OAQDA, the outstanding debt and debt service payments are reported in the financial statements of the State of Ohio, not within these financial statements. Of the governmental activities' \$36.6 million of expenses reported for 2010, \$32.3 million related to the return of state assistance received in the previous year as noted above and another \$3.9 million was used to finance various grant and research programs for advancing the uses of coal mined within the State of Ohio. At December 31, 2010 there was another \$20.0 million of approved projects with committed funds. The State of Ohio provides funds when cash is needed to pay on these projects, not when the project is approved.

As noted above, the operating revenues of the business-type activities reported for 2010 decreased by approximately \$985,000, or 33.1 percent, when compared with those reported for the prior year, however the business-type activities still reported an operating income of approximately \$646,000 for the year; \$473,000 in the Air Quality Development activity and \$173,000 in the Energy Strategy Development activity.

Capital Assets

At December 31, 2010, the OAQDA had a total of \$107,758 invested in capital assets less accumulated depreciation of \$90,545 resulting in total capital assets, net of accumulated depreciation of \$17,213. No individually significant capital asset addition was recorded for 2010 and depreciation expense for the year totaled \$6,097.

Additional information on the OAQDA's capital assets can be found in Note 5 to the basic financial statements.

Contacting the OAQDA

This financial report is designed to provide Ohio citizens and our customers and clients with a general overview of OAQDA's finances and to demonstrate OAQDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Ohio Air Quality Development Authority at 50 West Broad Street, Suite 1718, Columbus, Ohio 43215.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	<u>Governmental Activity</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 5,565,679	\$ 44,099,027	\$ 49,664,706
Receivables:			
Accounts	-	42,331	42,331
Intergovernmental	35,733	-	35,733
Internal balances	(25,574)	25,574	-
Prepaid items	830	7,038	7,868
Energy loans receivable	-	23,438,940	23,438,940
Capital assets, net of accumulated depreciation	<u>-</u>	<u>17,213</u>	<u>17,213</u>
 Total Assets	 <u>5,576,668</u>	 <u>67,630,123</u>	 <u>73,206,791</u>
 Liabilities:			
Accounts payable	6,164	57,251	63,415
Grants payable	226,578	-	226,578
Accrued wages and benefits	<u>3,995</u>	<u>24,063</u>	<u>28,058</u>
 Total Liabilities	 <u>236,737</u>	 <u>81,314</u>	 <u>318,051</u>
 Net Assets:			
Invested in capital assets	-	17,213	17,213
Restricted for:			
Coal research and development programs	5,339,931	-	5,339,931
Ohio Advanced Energy Projects	-	55,678,851	55,678,851
Unrestricted	<u>-</u>	<u>11,852,745</u>	<u>11,852,745</u>
 Total Net Assets	 <u>\$ 5,339,931</u>	 <u>\$ 67,548,809</u>	 <u>\$ 72,888,740</u>

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating Grants	Governmental Activity	Business-Type Activities	Total
Governmental Activity:						
Community and economic development	\$ 36,637,965	\$ -	\$ 270,682	\$ (36,367,283)		\$ (36,367,283)
Business-Type Activities:						
Air quality development	1,145,737	1,134,486	479,069		467,818	467,818
Energy strategy development	198,098	-	225,000		26,902	26,902
Total Business-Type Activities:	1,343,835	1,134,486	704,069		494,720	494,720
Total	\$ 37,981,800	\$ 1,134,486	\$ 974,751	(36,367,283)	494,720	(35,872,563)
General Revenues and Transfers:						
General state assistance				-	27,815,782	27,815,782
Investment earnings				238,986	146,639	385,625
Miscellaneous				-	4,851	4,851
Transfers				22,855	(22,855)	-
Total General Revenues and Transfers				261,841	27,944,417	28,206,258
Changes in net assets				(36,105,442)	28,439,137	(7,666,305)
Net assets at beginning of year				41,445,373	39,109,672	80,555,045
Net assets at end of year				\$ 5,339,931	\$ 67,548,809	\$ 72,888,740

See accompanying notes to the basic financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2010**

	<u>Coal Development</u>
Assets:	
Cash and cash equivalents	\$ 5,565,679
Intergovernmental receivable	35,733
Prepaid items	<u>830</u>
 Total Assets	 <u>\$ 5,602,242</u>
Liabilities:	
Accounts payable	\$ 6,164
Grants payable	226,578
Accrued wages and benefits	3,995
Due to other funds	<u>25,574</u>
 Total Liabilities	 <u>262,311</u>
Fund Balances:	
Reserved for encumbrances	17,266,148
Unreserved	<u>(11,926,217)</u>
 Total Fund Balance	 <u>5,339,931</u>
 Total Liabilities and Fund Balance	 <u>\$ 5,602,242</u>

See accompanying notes to the basic financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Coal Development</u>
Revenues:	
State assistance	\$ 270,682
Investment earnings	<u>238,986</u>
Total revenues	<u>509,668</u>
Expenditures:	
Current:	
Community and economic development:	
Salaries and employee benefits	139,766
Professional fees	43,822
Research	40,249
Intrastate payments:	
Return of state assistance receipts	32,283,264
Interest payments	164,642
Coal development grants	3,896,524
Office supplies and other administrative expenditures	40,589
Rental payments	<u>29,109</u>
Total expenditures	<u>36,637,965</u>
Excess of revenues over expenditures	(36,128,297)
Other Financing Sources:	
Transfer in	<u>22,855</u>
Net change in fund balance	(36,105,442)
Fund balances, January 1, 2010	<u>41,445,373</u>
Fund balances, December 31, 2010	<u>\$ 5,339,931</u>

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2010

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 11,648,549	\$ 32,450,478	\$ 44,099,027
Accounts receivable	42,331	-	42,331
Energy loans receivable	-	1,514,441	1,514,441
Due from other funds	40,492	-	40,492
Prepaid items	6,131	907	7,038
Total Current Assets	11,737,503	33,965,826	45,703,329
Noncurrent Assets:			
Energy loans receivable, net of current portion	-	21,924,499	21,924,499
Capital assets, net of accumulated depreciation	17,213	-	17,213
Total Noncurrent Assets	17,213	21,924,499	21,941,712
 Total Assets	 11,754,716	 55,890,325	 67,645,041
Liabilities:			
Current Liabilities:			
Accounts payable	51,451	5,800	57,251
Accrued wages and benefits	17,131	6,932	24,063
Due to other funds	-	14,918	14,918
Total Liabilities	68,582	27,650	96,232
Net Assets:			
Invested in capital assets	17,213	-	17,213
Restricted for Ohio Advanced Energy Projects	-	55,678,851	55,678,851
Unrestricted	11,668,921	183,824	11,852,745
 Total Net Assets:	 \$ 11,686,134	 \$ 55,862,675	 \$ 67,548,809

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Operating Revenues:			
Project administration fees	\$ 1,056,092	\$ -	\$ 1,056,092
Small business ombudsman fees	289,993	-	289,993
Small business assistance program fees	189,076	-	189,076
Energy operation fees	78,394	225,000	303,394
Investment earnings	775	145,864	146,639
Miscellaneous	4,851	-	4,851
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>1,619,181</u>	<u>370,864</u>	<u>1,990,045</u>
Operating Expenses:			
Salaries and employee benefits	434,456	124,217	558,673
Professional fees	100,276	27,295	127,571
Travel	21,951	-	21,951
Research grants and projects	355,202	-	355,202
Office supplies and other administrative expenses	192,986	29,606	222,592
Depreciation	6,097	-	6,097
Rental expense	34,769	16,980	51,749
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>1,145,737</u>	<u>198,098</u>	<u>1,343,835</u>
Operating income	473,444	172,766	646,210
Nonoperating revenues:			
Intergovernmental revenue	<u>-</u>	<u>27,815,782</u>	<u>27,815,782</u>
Income before transfers	473,444	27,988,548	28,461,992
Transfers in	-	1,663	1,663
Transfers out	<u>(24,518)</u>	<u>-</u>	<u>(24,518)</u>
Change in net assets	448,926	27,990,211	28,439,137
Net assets, January 1, 2010	<u>11,237,208</u>	<u>27,872,464</u>	<u>39,109,672</u>
Net assets, December 31, 2010	<u>\$ 11,686,134</u>	<u>\$ 55,862,675</u>	<u>\$ 67,548,809</u>

See accompanying notes to the basic financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 1,105,155	\$ -	\$ 1,105,155
Cash received from OEPA	479,069	-	479,069
Cash received from state agencies	-	225,000	225,000
Interest received	775	145,864	146,639
Other operating revenues	4,851	-	4,851
Payments to suppliers and vendors	(801,006)	(71,701)	(872,707)
Payments to employees	<u>(432,268)</u>	<u>(123,068)</u>	<u>(555,336)</u>
Net cash provided by operating activities	<u>356,576</u>	<u>176,095</u>	<u>532,671</u>
Cash flows from non-capital financing activities:			
Intergovernmental receipts	-	27,815,782	27,815,782
Energy loans issued	-	(23,438,940)	(23,438,940)
Transfers to other funds	(24,906)	-	(24,906)
Transfers from other funds	388	1,663	2,051
Advances to other funds	(141,668)	(52,931)	(194,599)
Advances from other funds	<u>132,119</u>	<u>56,083</u>	<u>188,202</u>
Net cash provided(used) by non-capital financing activities	<u>(34,067)</u>	<u>4,381,657</u>	<u>4,347,590</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	<u>(1,907)</u>	<u>-</u>	<u>(1,907)</u>
Net cash used by capital and related financing activities	<u>(1,907)</u>	<u>-</u>	<u>(1,907)</u>
Net increase in cash and cash equivalents	320,602	4,557,752	4,878,354
Cash and cash equivalents - beginning of year	<u>11,327,947</u>	<u>27,892,726</u>	<u>39,220,673</u>
Cash and cash equivalents - end of year	<u>\$ 11,648,549</u>	<u>\$ 32,450,478</u>	<u>\$ 44,099,027</u>
<u>Reconciliation of operating income to net cash provided by operating activities:</u>			
Operating income	\$ 473,444	\$ 172,766	\$ 646,210
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	6,097	-	6,097
(Increase) in accounts receivable	(29,331)	-	(29,331)
Decrease in prepaid expense	1	-	1
Increase (decrease) in accounts payable	(95,823)	2,180	(93,643)
Increase in wages and benefits payable	<u>2,188</u>	<u>1,149</u>	<u>3,337</u>
Net cash provided by operating activities	<u>\$ 356,576</u>	<u>\$ 176,095</u>	<u>\$ 532,671</u>

See accompanying notes to the basic financial statements.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

1. GENERAL INFORMATION

Introduction

The Ohio Air Quality Development Authority (the Authority) was created by amended House Bill No. 963, effective June 1, 1970, to provide for the conservation of air as a natural resource of the State and to prevent or abate the pollution thereof, to provide for the comfort, health, safety, and general welfare of all employees, as well as other inhabitants of the State, to create jobs and employment opportunities, and to improve the economic welfare of the people by providing for the acquisition, construction, maintenance, repair, and operation of air quality projects. The Authority is a body corporate and politic in the State of Ohio and has neither stockholders nor equity holders. The governing body consists of seven members. Five public members, of whom no more than three can be from the same political party, are appointed by the Governor with the advice and consent of the Senate. The two remaining members are the directors of the Ohio Environmental Protection Agency (Ohio EPA) and the Ohio Department of Health and serve in an ex-officio capacity. Under the provisions of the act, air quality revenue bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof.

On August 1, 1975, Senate Bill No. 104 amended the Ohio Revised Code to allow the Authority to issue revenue bonds for public utilities and other facilities for control of air and thermal pollution whether or not such facilities result in the creation or preservation of jobs. This bill also provides that conditional or installment sales may be authorized and permit that the revenue bonds or notes bear a variable rate of interest changing from time to time according to a formula prescribed in the bond or note agreement.

Conduit Debt Obligations

The Ohio Air Quality Development Authority may at any time issue revenue bonds and notes of the State in such principal amounts as, in the opinion of the Authority, are necessary for the purpose of paying any part of the cost of one or more air quality projects or parts thereof. The Authority may at any time issue renewal notes, issue bonds to pay such notes and, whenever it deems refunding expedient, refund any bonds by the issuance of air quality revenue refunding bonds of the State, whether the bonds to be refunded have or have not matured, and issue bonds partly to refund bonds then outstanding, and partly for any other authorized purpose. The renewal notes, bonds, and air quality revenue refunding bonds are issued under the Authority's name; however, they are not obligations of the Authority or the State of Ohio, but are backed by specific streams of revenue and additional collateralization as deemed necessary at the time of issuance. The unaudited aggregate amount of principal outstanding as of December 31, 2010 was approximately \$2.4 billion.

Agreements between the borrower, the Authority and the purchaser determine the retirement period of the bonds. Interest rates are determined by existing bond market conditions at the time of sale.

Small Business Programs

During fiscal year 1995, the Authority began two operations, both of which were created by Senate Bill No. 153, effective October 19, 1993. The operations are described in Ohio Revised Code Section 3706.19.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

The first operation is the office of Ombudsman for the small business stationary source technical and environmental compliance assistance program that was created in Ohio Revised Code Section 3704.18. The Ombudsman's duties include facilitating and promoting the participation of small businesses in compliance with the Federal Clean Air Act, provide and disseminate information about air pollution requirements and control technologies, conduct studies to evaluate the impacts of the Federal Clean Air Act on Ohio's economy, and other related duties. The Executive Director of the Authority and the director of the Ohio EPA establish annual budgets which are funded by monies set aside in the Ohio EPA's budget.

The second operation is the Small Business Assistance Fund (SBAF) that was authorized by Ohio Revised Code Section 3704.19. The SBAF is funded by monies set aside in the Ohio EPA's budget. The Ombudsman may use the monies in the SBAF solely to provide financial assistance to small businesses that have one hundred or fewer employees and that are having financial difficulty complying with the Clean Air Act Amendments of 1990.

Energy Strategy Development Program

In January 2007, Governor Ted Strickland issued Executive Order 2007-02 creating the position of Governor's Energy Advisor and appointing the Executive Director of the Authority to that position. The ensuing budget provided support for the office of the Governor's Energy Advisor through agreed upon assessments to other state agencies. The Energy Strategy Development Program carries out the duties of that office. It has two principle obligations under the Executive Order. The first is to coordinate the development of a comprehensive and coordinated state energy strategy to be implemented through the programmatic work of more than a dozen state agencies. The primary goal of the strategy is to strengthen Ohio's economy by building upon its inherent strengths to take advantage of the deployment and manufacture of advanced energy technologies. The second obligation is to coordinate the efforts of all state agencies to lead by example and reduce their energy consumption by an aggregate amount of 15% by the end of the administration's second biennial budget. During 2010, 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. 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.

Coal Development Program

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

During the year, the Authority segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at this more detailed level. At December 31, 2010, the Authority had one governmental fund (coal development) and two enterprise funds (air quality development and energy strategy development programs).

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

C. Fund Accounting

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

Governmental Funds

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

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

Proprietary Funds

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

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

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

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

D. Measurement Focus

Government-wide Financial Statements

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Fund Financial Statements

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

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

E. Basis of Accounting

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

Revenues – Exchange and Non-exchange Transaction

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

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Expenses/Expenditures

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

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

F. Application of Financial Accounting Standards Board (FASB) Statements

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Authority has elected not to adopt any FASB Statements and Interpretations issued after November 30, 1989.

G. Cash and Cash Equivalents

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

H. Energy Loans Receivables

The Energy Strategy Development activity issued the first energy conservation loans during 2010. These loans are issued to various private companies whose proposed projects meet the eligibility requirements of the program. Subsequent payment on loans will be maintained by the Authority in an escrow account and remitted to the Ohio Department of Development to fund future projects. There has been no allowance established associated with these loans due as the Authority anticipates complete repayment.

I. Capital Assets

Capital assets are recorded at cost and capitalized if the purchase price is \$300 or more. Depreciation is computed using the straight-line method over lives ranging from three to ten years. The Authority's capital assets and accumulated depreciation balances at December 31, 2010, was \$107,758 and \$90,545, respectively.

J. 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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

engages in a research and development program that is funded from these administrative fees. The Authority recognizes the fees as revenue on the date the bond or note is sold which approximates the date the fee is received, since the fee is not legally due the Authority until that time.

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.

Other Fees and Income

The Authority receives reimbursements from the Ohio Environmental Protection Agency for the cost of operating the two small business programs as well as commitments from other agencies within the State for the operation of energy strategy development program, as described previously. In addition, the Authority earns interest income from money market and other funds held in trust or on deposit with the Treasurer of State. The Authority recognizes this revenue in the period in which it is earned.

Classification

The Authority considers bond administrative fees, intergovernmental energy commitments, interest earned from money market accounts and reimbursements from the Ohio Environmental Protection Agency as operating revenues. State assistance received through bond proceeds and grants are reported as non-operating revenues.

K. Accrued Wages and Benefits

Accrued wages consists of wages payable to Authority employees as of December 31, 2010. The accrued wages balance consists of \$28,058 owed to employees for worked performed during the fiscal year.

L. Risk Management

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

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

M. Interfund Activity

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

3. CASH AND CASH EQUIVALENTS

At fiscal year end, the carrying amount of the Authority's deposits was \$49,664,706 and the bank balance was \$49,665,914. 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, 2010 the Authority had \$36,384 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, 2010, the balances for the Small Business Ombudsman and the Small Business Assistance programs were \$891,188 and \$2,908,102, 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, 2010, the balance for the energy strategy development program was \$189,332 and the balance in the account in which bond proceeds were deposited into was \$32,261,176.

Coal Development Deposits with Treasurer of State: Coal development grants are funded through the proceeds from the sale of State of Ohio's bonds. Bond proceeds which have not been distributed are on deposit with the Treasurer of State. At December 31, 2010, the Authority's cash balance in the coal research and development fund was \$5,565,681.

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, 2010, the Authority had \$7,814,052 in money market funds held in a trust account in the name of the Authority. The money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form.

4. LOANS RECEIVABLE

During 2010, the Authority issued \$23.4 million of energy loans to various companies to finance energy conservation projects. Details of the loan receivables are as follows:

<u>Loan Receivable</u>	<u>Interest Rate</u>	<u>Original Loan Amount</u>	<u>Amount Outstanding</u>	<u>Loan Maturity</u>
Buckeye Silicon	2.00%	\$ 1,428,000	\$ 1,428,000	February 2017
Ohio Cooperative Solar	1.00%	1,530,000	1,530,000	September 2016
Quasar Energy Group	2.00%	3,045,000	3,045,000	July 2017
Technology Management Inc.	2.00%	2,537,500	2,537,500	September 2013
Wayne Trail Technologies	2.00%	838,440	838,440	December 2015
Willard & Kelsey	3.66%	10,000,000	10,000,000	September 2012
Xunlight	2.00%	4,060,000	4,060,000	October 2016
Total		<u>\$ 23,438,940</u>	<u>\$ 23,438,940</u>	

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Repayment of loans receivables is scheduled to begin in 2011 and each loan payment includes a loan servicing fee. As loan payments are received by OAQDA, principal and interest amounts will be deposited into a separate bank account and be subsequently remitted to the Ohio Department of Development in accordance with the requirements of the Energy Loan Program.

At December 31, 2010 the repayment schedule of loans receivables was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Loan Servicing Fee</u>
2011	\$ 1,514,441	\$ 297,490	\$ 9,330
2012	11,835,403	472,562	10,796
2013	3,241,547	174,853	9,596
2014	1,849,269	111,239	7,996
2015	1,883,625	75,476	7,996
2016-2017	<u>3,114,655</u>	<u>45,454</u>	<u>7,462</u>
Total	<u>\$ 23,438,940</u>	<u>\$ 1,177,074</u>	<u>\$ 53,176</u>

Provisions of the individual loan agreements include forgiveness of a portion of outstanding loan principal should the companies meet certain operational marks, including job creations and/or increased energy productions. The amounts of the loan principal to be forgiven are set on a loan to loan basis and range from \$100,000 to \$2.5 million. As it is currently uncertain if the companies will meet or exceed the operational marks established, no provisions have been included in these financial statements to account for any potential forgiveness of loan principal amounts.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital Assets:</u>				
Office equipment	\$ 105,851	\$ 1,907	\$ -	\$ 107,758
Less accumulated depreciation for:				
Office equipment	<u>(84,448)</u>	<u>(6,097)</u>	<u>-</u>	<u>(90,545)</u>
Total capital assets, net	<u>\$ 21,403</u>	<u>\$ (4,190)</u>	<u>\$ -</u>	<u>\$ 17,213</u>

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 2010 was \$80,858. The terms of the leases are not anticipated to change significantly in future fiscal years.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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 that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2010, 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 2010 was 14.00%. The Ohio Revised Code provides statutory authority for member and employer contributions. Total required employer contributions for pension obligations were \$39,298, \$48,002 and \$41,741 for the years ending December 31, 2010, 2009, and 2008, 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.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, 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. For 2010, the employer contribution allocated to the health care plan was 5.5% of covered payroll from January 1, 2010 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retirees or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of the Authority's contributions to OPERS used to fund post-employment benefits for the years ended December 31, 2010, 2009 and 2008 were \$25,541, \$34,709 and \$41,741, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

9. COMMITMENTS

As of December 31, 2010 the Authority had commitments of approximately \$20.0 million for research grants due on coal research and development agreements. These grants will be paid from proceeds of debt issued by the State of Ohio.

10. INTERFUND ACTIVITY

At December 31, 2010, the coal development activity and the energy strategy development program owed the air quality development activity \$25,574 and \$14,918, respectively, for its share of the overhead operating expenses for the fourth quarter of 2010. The reimbursement of these funds is anticipated to occur during calendar year 2011.

During 2010, certain expenses which were recorded in the coal development activity and the energy strategy development program but initially paid by the air quality development activity could not be reimbursed due to a lack of available appropriations in the respective state funds. Therefore, transfers from the air quality development fund to the coal development activity and the energy strategy development program were recorded in totaling \$22,855 and \$1,663, respectively, to provide sufficient financing for those expenses.

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**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
COAL DEVELOPMENT
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
State assistance - general revenue	\$ 117,683	\$ 247,655	\$ 296,840	\$ 49,185
Interest	-	-	238,986	238,986
Total Revenues	<u>117,683</u>	<u>247,655</u>	<u>535,826</u>	<u>288,171</u>
Expenditures:				
Current:				
General fund	133,623	263,595	302,805	(39,210)
Coal research and development	<u>32,293,375</u>	<u>37,293,375</u>	<u>53,831,191</u>	<u>(16,537,816)</u>
Total Expenditures	<u>32,426,998</u>	<u>37,556,970</u>	<u>54,133,996</u>	<u>(16,577,026)</u>
Change in Fund Balance	(32,309,315)	(37,309,315)	(53,598,170)	(16,288,855)
Fund Balance at Beginning of Year	31,740,808	31,740,808	31,740,808	-
Prior Year Encumbrances Appropriated	<u>10,309,315</u>	<u>10,309,315</u>	<u>10,309,315</u>	-
Fund Balance at End of Year	<u>\$ 9,740,808</u>	<u>\$ 4,740,808</u>	<u>\$ (11,548,047)</u>	<u>\$ (16,288,855)</u>

See accompanying notes to the required supplementary information.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Required Supplementary Information
For the Year Ended December 31, 2010

Basis of Budgeting

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

Budgeting Policies

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

Original budget amounts in the accompanying budgetary schedule were taken from the budget for the last half of the fiscal year 2010 State budget. The final budgetary amounts incorporate the first half of the fiscal year 2011 State budget. An appropriated budget is the expenditure authority created by appropriations bills that are signed into law and related estimated revenues. The budget also includes actual appropriation amounts automatically carried over from prior years by law, including the automatic rolling forward of appropriations to cover prior-year encumbrances.

Final budget amounts represent original appropriations modified by authorized transfers, supplemental and amended appropriations, and other legally authorized legislative and executive changes applicable to the period ending December 31, 2010, whenever signed into law or otherwise legally authorized.

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

Reconciliation of GAAP Basis Change in Fund Balance
to Non-GAAP Budgetary Basis Change in Fund Balance
For the Coal Development Program
As of December 31, 2010

GAAP basis	\$ (36,105,442)
Revenue accruals	26,158
Expenditure accruals	223,273
Encumbrances	(17,719,304)
Transfers	<u>(22,855)</u>
Budgetary basis	<u>\$ (53,598,170)</u>

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

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Dave Yost • Auditor of State

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

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

To the Authority:

We have audited the financial statements of the governmental activities, 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, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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 June 24, 2011.

We intend this report solely for the information and use of the Authority's management, the Authority's Board Members, and others within the Authority. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

June 24, 2011



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
JULY 12, 2011