



Dave Yost • Auditor of State

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Basic Financial Statements	
Statement of Net Position – Enterprise Funds	9
Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds.....	10
Statement of Cash Flows – Enterprise Funds.....	11
Statement of Fiduciary Assets and Liabilities.....	13
Notes to the Financial Statements.....	15
Supplemental Information	
Schedule of Changes in Assets and Liabilities – Agency Fund	28
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	29
Schedule of Findings.....	31

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Ohio Air Quality Development Authority (the Authority), a component unit of the State of Ohio, as of and for the year ended December 31, 2014, 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, 2014, 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 financial statements of the Authority present the financial position, changes in financial position and, where applicable, cash flows thereof. They do not purport to, and do not, present fairly the financial position of the State of Ohio as of June 30, 2015, or the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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.

Supplementary Information

Our audit was conducted to opine on the Authority's basic financial statements taken as a whole.

The Schedule of Changes in Assets and Liabilities – Agency Fund (the schedule) presents additional analysis and is not a required part of the basic financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2015

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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, 2014. 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 2014, OAQDA was responsible for the administration of three programs: Project Development and Financing; the Clean Air Resource Center; and the Energy Strategy Development Program. The Project Development and the Clean Air Resource Center are combined in the air quality development activity which is reported as an enterprise fund. Project Development and Financing is a self-supporting activity which provides for the acquisition, construction, maintenance, repair, and operation of air quality projects within the State of Ohio. The Clean Air Resource Center provides assistance to small businesses as they comply with requirements of the Clean Air Act; it is supported through a transfer of funds from the Ohio Environmental Protection Agency. Those funds are from Title V air permit fees. The Energy Strategy Development Activity accounts for the financial activity related to promoting deployment and manufacture of advanced energy technologies financed through revenue bonds issued under Ohio Revised Code (ORC) Section 166.08 by the State of Ohio. Like the air quality development activity, the energy strategy development activity is reported as an enterprise fund.

The aggregate financial information of these programs noted above is reported as a discretely presented component unit in the State of Ohio's comprehensive annual financial report (CAFR).

Financial Highlights

Key financial highlights for the year ended December 31, 2014 are as follows:

- Total net position of OAQDA decreased by \$3.1 million in 2014 from the \$36.4 million reported at December 31, 2013 to \$33.3 million one year later. A significant portion of this decrease relates to the \$1.9 million intrastate remittance of cash from the energy strategy development activity to the Ohio Development Services Agency (DSA) during 2014. As energy loans are repaid, the principal and interest components of the loan repayments are remitted to DSA to fund future energy projects as determined by DSA.
- Total revenues of the OAQDA's enterprise activities increased by approximately \$249,000 or 17.0 percent compared to those reported for the prior year. The increase in project administration fees resulted from bond closure occurring late in the year which was recognized as a receivable at year-end. The increase in investment earnings related to the continued increase in the rate of return and market value of OAQDA's investment portfolio.
- The total expenses of the two enterprise activities of OAQDA reported for 2014 was \$4.8 million compared with the \$24.9 million reported for 2013. The decrease in intrastate remittances account for \$17.5 million of the \$20.1 million decrease in expenses reported for 2014 as the 2013 transfer to DSA consisted primarily of funds remaining undisbursed from the previous sale of revenue bonds. The decrease in the doubtful accounts expense (\$1.7 million) related to the smaller increase needed for the current year allowance. Loan incentive expense also decreased by \$787,183 as fewer loans were eligible for principal forgiveness during 2014 compared to those eligible in the prior year.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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 fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These statements offer short and long-term financial information about the activities.

The statement of net position presents information on all of the assets and liabilities of OAQDA as well as the net position of the two enterprise activities as of December 31, 2014. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of OAQDA is improving or deteriorating. The statement of revenues, expenses and changes in net position presents information showing how OAQDA's enterprise activities' net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years (e.g., depreciation). The statement of cash flows provides information about OAQDA's cash receipts received and cash payments made during the year. This statement summarizes the net changes in cash resulting from operating, noncapital financing, capital, and investing activities of the two enterprise activities.

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

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

The OAQDA as a Whole

The following tables provide a summary of OAQDA's financial position and operations for 2014 and 2013, respectively.

TABLE 1
NET POSITION

	2014	2013	Dollar Change	Percent Change
<i>Assets:</i>				
Current and Other Assets	\$ 34,219,848	\$ 37,784,829	\$ (3,564,981)	-9.43%
Capital Assets, Net	5,067	6,672	(1,605)	-24.06%
Total Assets	<u>34,224,915</u>	<u>37,791,501</u>	<u>(3,566,586)</u>	<u>-9.44%</u>
<i>Liabilities</i>				
Current and Other Liabilities	927,399	1,387,837	(460,438)	-33.18%
Total Liabilities	<u>927,399</u>	<u>1,387,837</u>	<u>(460,438)</u>	<u>-33.18%</u>
<i>Net Position:</i>				
Invested in Capital Assets	5,067	6,672	(1,605)	-24.06%
<i>Restricted:</i>				
Existing Advanced Energy Projects	21,255,827	24,654,748	(3,398,921)	-13.79%
Ohio Development Services	51,623	256,730	(205,107)	-79.89%
Program administration	800	3,200	(2,400)	-75.00%
Unrestricted	<u>11,984,199</u>	<u>11,482,314</u>	<u>501,885</u>	<u>4.37%</u>
Net Position	<u>\$ 33,297,516</u>	<u>\$ 36,403,664</u>	<u>\$ (3,106,148)</u>	<u>-8.53%</u>

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Unaudited)

Table 2 shows the changes in net position for the years ended December 31, 2014 and 2013.

TABLE 2
CHANGE IN NET POSITION

	2014	2013	Dollar Change	Percent Change
<i>Operating Revenues:</i>				
Project administration fees	\$ 889,148	\$ 706,905	\$ 182,243	25.78%
EPA fees	368,660	384,866	(16,206)	-4.21%
Energy operation fees	176,394	176,175	219	0.12%
Energy loan income	166,556	165,333	1,223	0.74%
Miscellaneous	11,690	25,202	(13,512)	-53.61%
<i>Non-Operating Revenues:</i>				
Investment earnings	102,729	7,852	94,877	1208.32%
Total Revenue	<u>1,715,177</u>	<u>1,466,333</u>	<u>248,844</u>	<u>16.97%</u>
<i>Operating Expenses:</i>				
Salaries and benefits	468,614	350,904	117,710	33.54%
Professional fees	361,804	325,541	36,263	11.14%
Travel	8,798	7,467	1,331	17.83%
Research grants/projects	5,180	214,202	(209,022)	-97.58%
Intrastate remittance	1,865,694	19,410,965	(17,545,271)	-90.39%
Administrative/office supplies	123,123	157,721	(34,598)	-21.94%
Depreciation	1,605	1,608	(3)	-0.19%
Rental	67,050	78,952	(11,902)	-15.07%
Loan incentive	1,062,817	1,850,000	(787,183)	-42.55%
Doubtful accounts	856,640	2,512,704	(1,656,064)	100.00%
Total Expenses	<u>4,821,325</u>	<u>24,910,064</u>	<u>(20,088,739)</u>	<u>-80.65%</u>
Change in net position	(3,106,148)	(23,443,731)	20,337,583	-86.75%
Net position, January 1	<u>36,403,664</u>	<u>59,847,395</u>	<u>(23,443,731)</u>	<u>-39.17%</u>
Net position, December 31	<u>\$ 33,297,516</u>	<u>\$ 36,403,664</u>	<u>\$ (3,106,148)</u>	<u>-8.53%</u>

As displayed in Table 1, the OAQDA reported a net position of \$33.3 million at December 31, 2014 compared to the \$36.4 million reported for the prior year. Net position at year-end restricted for specific purposes totaled \$21.3 million; virtually all restricted for existing advanced energy projects with the remainder restricted for required remittances associated with Energy Strategy Development activity. At December 31, 2014 the unrestricted net position of the air quality development activity represents over 17 times the total annual operating expenses for the activity.

Overall total net position of OAQDA decreased by \$3.1 million in 2014; net position of the air quality development activity increased by \$657,888 while the net position of the energy strategy development activity decreased by \$3.8 million. The increase in the net position of the air quality development activity during the year resulted as project administration fees increased and research grants expense decreased during 2014 compared with 2013. The nature of the energy strategy development activity and the manner in which the energy loan repayments are handled will most likely result in a decrease in net position on an annual basis. As loan payments are made, the principal and interest payments are required to be remitted to the Ohio Development Services Agency (DSA) to fund future energy related projects as determined by DSA. In addition, other loan related activity, such as loan forgiveness and doubtful account expenses, are recognized in the period the criteria to record these expenses are realized. As such, despite the energy strategy development activity reporting \$19.9 million less in expenses for 2014 compared with 2013, the ending net position of the activity was \$3.8 million less than that reported at the beginning of the year.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Unaudited)

Table 2 shows total revenues of the OAQDA's enterprise activities increased by \$248,844 or 17.0 percent compared to those reported for the prior year. The increase in investment earnings related to the continued increase in the rate of return and market value of OAQDA's investment portfolio. The project administration fees reported by the air quality development activity increased by \$182,243 over those reported for 2013 based on the amount of loans closed on during 2014.

The total expenses of the two enterprise activities of OAQDA reported for 2014 was \$4.8 million compared with the \$24.9 million reported for 2013. The decrease in intrastate remittances (noted above) account for \$17.5 million of the \$20.1 million decrease in expenses reported for 2014. Other notable decreases include; \$1.7 million decrease in doubtful accounts expense as smaller increases in the allowance for doubtful accounts were needed for the current year compared to the prior year and \$787,183 decrease in loan incentive expense that relate to forgiveness of loans receivable when certain target employment marks are met and the recognition of the expense will depend on when the targets are met and forgiveness is approved. Increase in salaries and benefits expense resulted for having one additional staff person employed during 2014 as well as increases in the payroll benefits, especially health care coverage.

Capital Assets

At December 31, 2014, the OAQDA had a total of \$90,430 invested in capital assets less accumulated depreciation of \$85,363 resulting in total capital assets, net of accumulated depreciation of \$5,067. There were no capital asset additions recorded for 2014 and depreciation expense for the year totaled \$1,605. 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.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2014

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 6,167,234	\$ 7,752,831	\$ 13,920,065
Investments	1,720,204	-	1,720,204
Cash and cash equivalents with fiscal agent	-	547	547
Accounts receivable	106,096	-	106,096
Accrued interest receivable:			
Income from loan interest, net of doubtful accounts	-	51,623	51,623
Investment income	7,518	-	7,518
Energy loans receivable, net of doubtful accounts	-	10,614,457	10,614,457
Due from other funds	117,632	-	117,632
Prepaid items	8,350	3,578	11,928
Restricted assets:			
Cash and cash equivalents with fiscal agent	-	778,285	778,285
Accounts receivable	-	800	800
Total Current Assets	<u>8,127,034</u>	<u>19,202,121</u>	<u>27,329,155</u>
Noncurrent Assets:			
Investments	3,918,029	-	3,918,029
Energy loans receivable, net of doubtful accounts	-	2,972,664	2,972,664
Capital assets, net of accumulated depreciation	<u>5,067</u>	<u>-</u>	<u>5,067</u>
Total Noncurrent Assets	<u>3,923,096</u>	<u>2,972,664</u>	<u>6,895,760</u>
Total Assets	<u>12,050,130</u>	<u>22,174,785</u>	<u>34,224,915</u>
Liabilities:			
Current Liabilities:			
Accounts payable	7,049	8,707	15,756
Accrued wages and benefits	11,008	4,718	15,726
Due to other funds	-	117,632	117,632
Payable from restricted assets:			
Accounts payable	-	12,928	12,928
Intrastate payable	<u>-</u>	<u>765,357</u>	<u>765,357</u>
Total Liabilities	<u>18,057</u>	<u>909,342</u>	<u>927,399</u>
Net Position:			
Investment in net capital assets	5,067	-	5,067
Restricted for:			
Existing Ohio Advanced Energy Projects	-	21,255,827	21,255,827
Remittance to Ohio Development Services Agency	-	51,623	51,623
Remittance to program administrator	-	800	800
Unrestricted	<u>12,027,006</u>	<u>(42,807)</u>	<u>11,984,199</u>
Total Net Position	<u>\$ 12,032,073</u>	<u>\$ 21,265,443</u>	<u>\$ 33,297,516</u>

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, 2014

	<u>Air Quality Development</u>	<u>Energy Strategy Development</u>	<u>Total</u>
Operating Revenues:			
Project administration fees	\$ 889,148	\$ -	\$ 889,148
Small business ombudsman fees	229,258	-	229,258
Small business assistance program fees	139,402	-	139,402
Energy operation fees	-	176,394	176,394
Energy loan Income:			
Loan interest	-	158,556	158,556
Loan fees	-	8,000	8,000
Miscellaneous	11,690	-	11,690
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>1,269,498</u>	<u>342,950</u>	<u>1,612,448</u>
Operating Expenses:			
Salaries and employee benefits	328,024	140,590	468,614
Professional fees	210,798	151,006	361,804
Travel	7,771	1,027	8,798
Research grants and projects	5,180	-	5,180
Intrastate remittance expense	-	1,865,694	1,865,694
Office supplies and other administrative expenses	87,911	35,212	123,123
Depreciation	1,605	-	1,605
Rental expense	46,935	20,115	67,050
Loan incentive expense	-	1,062,817	1,062,817
Doubtful account expense	-	856,640	856,640
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>688,224</u>	<u>4,133,101</u>	<u>4,821,325</u>
Operating income (loss)	581,274	(3,790,151)	(3,208,877)
Nonoperating revenues (expenses):			
Investment earnings:			
Interest revenue	43,755	26,115	69,870
Change in fair value of investments	32,859	-	32,859
	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses):	<u>76,614</u>	<u>26,115</u>	<u>102,729</u>
Change in net position	657,888	(3,764,036)	(3,106,148)
Net position, January 1, 2014	<u>11,374,185</u>	<u>25,029,479</u>	<u>36,403,664</u>
Net position, December 31, 2014	<u>\$ 12,032,073</u>	<u>\$ 21,265,443</u>	<u>\$ 33,297,516</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, 2014**

	Air Quality Development	Energy Strategy Development	Total
<u>Cash flows from operating activities:</u>			
Receipts from customers	\$ 783,052	\$ 176,394	\$ 959,446
Cash received from OEPA	368,660	-	368,660
Energy loans issued	-	(240,000)	(240,000)
Energy loans principal repayment	-	1,758,762	1,758,762
Interest received on energy loans	-	106,933	106,933
Energy loans fees received	-	10,400	10,400
Other operating revenues	11,690	-	11,690
Intrastate payments	-	(1,584,279)	(1,584,279)
Payments to suppliers and vendors	(386,910)	(218,180)	(605,090)
Payments to employees	(327,232)	(140,250)	(467,482)
Net cash provided (used) by operating activities	<u>449,260</u>	<u>(130,220)</u>	<u>319,040</u>
<u>Cash flows from non-capital financing activities:</u>			
Advances to other funds	(117,632)	(828,099)	(945,731)
Advances from other funds	828,099	117,632	945,731
Net cash provided (used) by non-capital financing activities	<u>710,467</u>	<u>(710,467)</u>	<u>-</u>
<u>Cash flows from investing activities:</u>			
Purchase of investments	(2,786,390)	-	(2,786,390)
Sale of investments	1,949,760	-	1,949,760
Investment earnings	40,655	26,115	66,770
Net cash provided (used) by investing activities	<u>(795,975)</u>	<u>26,115</u>	<u>(769,860)</u>
Net decrease in cash and cash equivalents	363,752	(814,572)	(450,820)
Cash and cash equivalents - beginning of year	<u>5,803,482</u>	<u>9,346,235</u>	<u>15,149,717</u>
Cash and cash equivalents - end of year	<u>\$ 6,167,234</u>	<u>\$ 8,531,663</u>	<u>\$ 14,698,897</u>
<u>Cash and cash equivalents - Statement of Net Position:</u>			
Unrestricted:			
Cash and cash equivalents	\$ 6,167,234	\$ 7,752,831	\$ 13,920,065
Cash and cash equivalents with fiscal agent	-	547	547
Restricted			
Cash and cash equivalents with fiscal agent	<u>-</u>	<u>778,285</u>	<u>778,285</u>
Total cash and cash equivalents	<u>\$ 6,167,234</u>	<u>\$ 8,531,663</u>	<u>\$ 14,698,897</u>

(Continued)

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014
(Continued)

Reconciliation of operating income (loss) to
net cash provided (used) by operating activities:

Operating income (loss)	\$ 581,274	\$ (3,790,151)	\$ (3,208,877)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	1,605	-	1,605
Decrease in energy loans receivable	-	3,182,134	3,182,134
(Increase)Decrease in accounts receivable	(106,096)	2,400	(103,696)
Decrease in loan interest receivable	-	204,462	204,462
Decrease in prepaid expense	(4,632)	(1,985)	(6,617)
Decrease in accounts payable	(23,683)	(8,835)	(32,518)
Increase in wages and benefits payable	792	340	1,132
Increase in intrastate payable	-	281,415	281,415
Net cash provided (used) by operating activities	<u>\$ 449,260</u>	<u>\$ (130,220)</u>	<u>\$ 319,040</u>

Schedule of non-cash investing activities:

Change in fair value of investments	<u>\$ 32,859</u>	<u>\$ -</u>	<u>\$ 32,859</u>
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**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2014**

Assets:	
Cash and cash equivalents	\$ <u> -</u>
Total Assets	\$ <u><u> -</u></u>
Liabilities:	
Due to others	\$ <u> -</u>
Total Liabilities	\$ <u><u> -</u></u>

See accompanying notes to the basic financial statements.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

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, 2014 was approximately \$2.6 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, 2014

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 financial activity of the programs administered by the Ohio Air Quality Development Authority (air quality development activity and energy strategy development program business-type activities and the agency fund accounting for the Diesel Emissions Reduction Grants Program) are aggregated and included in the 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 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position present the financial activity of the Authority's programs, except for the fiduciary funds. The Authority had no programs classified as governmental activities for the year ended December 31, 2014.

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 2014, the Authority had two enterprise funds (air quality development and energy strategy development programs) and one agency fiduciary fund. For the year, the Authority had no governmental fund types.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

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 focus of enterprise fund financial statements is on major program (fund) level while fiduciary funds are reported by type. For 2014, the Authority reported no governmental 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.

Fiduciary Funds

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

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

D. Measurement Focus

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

E. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include the state assistance revenue received by the Authority. Revenue from state assistance is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted. Under the accrual basis of accounting, expenses are recognized at the time they are incurred.

F. Cash and Cash Equivalents

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

G. Cash and Cash Equivalents with Fiscal Agent

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

H. Advanced Energy Loans Receivables

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

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 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, 2014, was \$90,430 and \$85,363, 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.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

The Authority recognizes the administrative fees as revenue on the date the bond or note is sold since the fee is not legally due to the Authority until that time.

Energy Operations Fees

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

Other Fees and Income

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

Classification

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

L. Loan Incentive Expense

Certain individual energy loan agreements contain incentive clauses which, if met, will forgive a certain amount of the respective loan amount. Upon presentation by the program's contractual loan service agent and after final approval by the OAQDA Director, any such forgiveness due to incentives met is recognized as an expense within the current year. In addition, the amount forgiven will reduce the respective loan balances progressing from the last scheduled repayment amount. During 2014, there was one such incentive clause approved which resulted in \$1,062,817 of loan repayments being forgiven.

M. Accrued Wages and Benefits

Accrued wages consist of wages payable to Authority employees as of December 31, 2014. The accrued wages balance consists of \$15,726 owed to employees for work performed during the fiscal year but which they were not compensated until the subsequent year.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

N. Compensated Absences

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

O. 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.

P. Interfund Activity

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

3. DEPOSITS AND INVESTMENTS

Deposits:

At fiscal year end, the carrying amount of the Authority's deposits was \$14,698,897 and the depository balance was \$14,698,896. The Authority's deposits at year-end consisted of the following:

Deposits with Treasurer of State of Ohio:	
Operating - Payroll Clearing	\$ 43,076
Small Business Ombudsman	1,002,695
Small Business Assistance	3,521,702
Energy Strategy Development	84,660
Advanced Energy R&D Taxable Bonds	<u>7,668,159</u>
Total on Deposit with Treasurer of State	\$ 12,320,292
Deposits with Financial Institutions:	
Trust - Bank Money Market Funds	1,599,772
Checking Account - Loan Repayment Holding	778,285
Escrow Accounts - Loan Projects	<u>547</u>
Total on Deposit with Financial Institutions	<u>2,378,604</u>
Total Deposits	<u>\$ 14,698,896</u>

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

Deposits with the Treasurer of State are not subject to the classification of custodial credit risk. The bank money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form. Of the \$778,832 deposits in checking and escrow accounts; \$250,547 was insured by the Federal Deposit Insurance Corporation and the remaining \$528,285 was subject to custodial credit risk as it was not covered by FDIC coverage or collateral.

Investments:

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

As of December 31, 2014, the Authority had the following investments:

Investment Type	Fair Value	Investment Maturities in Years			Concentration of Credit Risk
		1 Year or Less	2 to 3 Years	4 to 5 Years	
FHLB	\$ 1,895,013	\$ 800,333	\$ 499,840	\$ 594,840	33.61%
FFCB	249,735	-	249,735	-	4.43%
FHLMC	845,968	-	-	845,968	15.01%
FHLMC Discount Note	264,629	264,629	-	-	4.69%
FNMA	1,727,646	-	840,474	887,172	30.64%
Treasury Money Market	655,242	655,242	-	-	11.62%
Totals	<u>\$ 5,638,233</u>	<u>\$ 1,720,204</u>	<u>\$ 1,590,049</u>	<u>\$ 2,327,980</u>	<u>100.00%</u>

Credit Risk: At December 31, 2014 the FHLB, FFCB, FHLMC and FNMA obligations were rated AA+ and the Treasury Money Market was rated AAAM by Standard and Poor's.

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

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

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

4. ENERGY LOANS RECEIVABLE

As of December 31, 2014, the Authority reports \$13.6 million of advanced energy loans outstanding, which is net of \$7.1 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	\$ -	2017
Ohio Cooperative Solar	2010	1.00%	1,530,000	658,383	2016
Quasar Energy Group	2010	2.00%	3,045,000	1,257,212	2017
Technology Management Inc.	2010	2.00%	2,537,500	2,537,500	2015
Wayne Trail Technologies	2010	2.00%	838,440	-	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	238,256	2018
SoCore Solar Energy	2011	1.50%	5,237,400	1,174,111	2019
Stark County	2011	3.00%	1,500,000	641,659	2021
Isofoton North America	2012	2.00%	<u>5,000,000</u>	<u>5,000,000</u>	2019
Gross Total			<u>\$ 36,542,120</u>	20,667,121	
Less: Allowance for Doubtful Accounts				<u>(7,080,000)</u>	
Net Energy Loans Receivable				<u>\$ 13,587,121</u>	

Once approved, project loan amounts are deposited into the appropriate escrow accounts awaiting disbursement. There were no new projects approved during 2014. Disbursements, for previously approved projects, out of these escrow accounts (addition to loans outstanding) totaled \$240,000 during the year and \$1.8 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 2014, \$1.1 million in loans outstanding were forgiven as the respective borrowers met the incentive clauses contained within the respective agreements.

At December 31, 2014 \$10,614,457 of energy loans are considered due within one year (\$17,694,457 in gross loans less \$7,080,000 in allowance for doubtful accounts) and \$2,972,664 are considered due in more than one year (\$2,972,664 in gross loans less \$0 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, 2014, the Authority reported total accrued loan interest receivable in the amount of \$601,230 less an allowance for doubtful accounts of \$549,607.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital Assets:</u>				
Office equipment	\$ 90,430	\$ -	\$ -	\$ 90,430
Less accumulated depreciation for:				
Office equipment	<u>(83,758)</u>	<u>(1,605)</u>	<u>-</u>	<u>(85,363)</u>
Total capital assets, net	<u>\$ 6,672</u>	<u>\$ (1,605)</u>	<u>\$ -</u>	<u>\$ 5,067</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 2014 was \$67,050. The terms of the leases are not anticipated to change significantly in future fiscal years.

7. PENSION PLAN

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

- 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>, by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642, or by calling 800-222-7377.

For the year ended December 31, 2014, 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 2014 was 14.00%. The Ohio Revised Code provides statutory authority for member and employer

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

contributions. Total required employer contributions for pension obligations were \$37,280, \$33,422 and \$22,869 for the years ending December 31, 2014, 2013, and 2012, 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. OPERS's eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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. The ORC provides the statutory authority requiring public employers to fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, state employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional and combined plans was 2.0% during calendar year 2014. 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, 2014, 2013 and 2012 were \$6,210, \$2,571 and \$9,147, respectively, and are equal to 100% of the required contributions for the each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements
For the Year Ended December 31, 2014

legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions towards the health care fund after the end of the transition period.

9. **INTERFUND ACTIVITY**

At December 31, 2014, the energy strategy development program owed the air quality development activity a total of \$117,632 for its share of the overhead operating expenses for the third and fourth quarters of 2014. The reimbursement of these funds is anticipated to occur during calendar year 2015.

10. **CHANGE IN ACCOUNTING PRINCIPLES**

During the year ended December 31, 2014, the Authority adopted the provisions of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of these statements did not have an effect on the Authority's financial statements for the current year.

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

SUPPLEMENTAL INFORMATION

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Assets:				
Cash and cash equivalents	\$ -	\$ 1,062,103	\$ 1,062,103	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 1,062,103</u>	<u>\$ 1,062,103</u>	<u>\$ -</u>
Liabilities:				
Due to others	\$ -	\$ 1,062,103	\$ 1,062,103	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 1,062,103</u>	<u>\$ 1,062,103</u>	<u>\$ -</u>



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 West Broad Street, Suite 1718
Columbus, Ohio 43215

To the Authority:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and each major fund of the Ohio Air Quality Development Authority (the Authority) a component unit of the State of Ohio, as of and for the year ended December 31, 2014, 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 30, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our

audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated October 30, 2015.

Entity's Response to Findings

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

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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

October 30, 2015

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
DECEMBER 31, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

MATERIAL WEAKNESS

FINANCIAL REPORTING REVIEW PROCESS

Generally Accepted Accounting Principles (GAAP) require that financial statements present fairly the financial position of an entity, be free of material misstatements, and be supported by the underlying accounting records of the entity. GAAP also require that entities using the accrual basis of accounting recognize revenue and expenses when exchanges occur rather than when cash is physically received or given. It is management's responsibility to devise and implement internal control procedures that provide reasonable assurance that transactions are being processed in accordance with GAAP, are recorded properly in the accounting records, and are reported accurately in the financial statements.

The Authority contracted with a consultant to compile the fiscal year 2014 financial statements; however, the Authority's management remains responsible for the presentation and accuracy of the financial statements. The Authority issued bonds, which closed on December 18, 2014, but did not physically receive the Project Administration Fees of \$106,096 related to the bond issuance until January 8, 2015. The Authority's financial reporting policy, which followed GAAP standards, stated "Revenues are recognized on the date the bond or note is sold . . .". However, the Authority did not accrue and recognize the revenue and related accounts receivable in fiscal year 2014 at the closing of the bonds. Although Authority management reviewed these financial statements, their review did not identify this issue.

The Authority adjusted the financial statements and revised the related footnotes to correct these items once they were brought to management's attention.

If controls or oversight of the accounting and financial reporting processes are not in place and operating effectively, there is a risk the financial statements could be inaccurate, errors could occur and go undetected, and accounting guidance may not be properly or consistently implemented.

We recommend the Authority evaluate the adequacy of its existing financial reporting procedures and controls, and revise them as needed to reasonably ensure errors are identified and addressed by management prior to finalizing the financial statements. This evaluation process should require the controls include, but not be limited to:

- Obtaining an understanding of the accounting standards relevant to the Authority and providing appropriate training regarding financial reporting standards to all employees involved in the preparation and review of the financial statements.
- Ensuring the policies and procedures are communicated to all employees involved in the preparation and review of the financial statements so they can properly implement the policies and procedures.
- Performing a comparison of the draft financial statements to the previous audited financial statements to identify and investigate any significant, unusual, or unexpected variances or fluctuations.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS
DECEMBER 31, 2014**

FINDING NUMBER 2014-001 (CONTINUED)

We further recommend management and employees document their reviews in some manner and maintain the documentation according to approved record retention policies.

Once the Authority became aware of this finding they began working to implement a new review process. On October 5, 2015, the Authority formalized the review process including a Checklist to document their review.

Officials' Response

The Authority took immediate action to make adjustments to address the related transaction and to improve the financial reporting process for the future. Clear steps have been formally outlined to ensure that the contracted accountant has all necessary information to accurately prepare financial statements and that a regular review of progress with the contracted accountant is conducted by the Authority's Fiscal Officer. Those steps include multiple layers of documented review by the Fiscal Officer and Executive Director of the prepared financial statements, and the use of a Financial Statement Review Checklist which has been implemented to offer high levels of detail and accountability to the review process.



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
DECEMBER 1, 2015**