OHIO AIR QUALITY DEVELOPMENT AUTHORITY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2011

Dave Yost • Auditor of State

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

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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, 2011, 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, 2012, 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 the Authority as of December 31, 2011, 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 November 6, 2012, 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.

Dave Yost

Dave Yost
Auditor of State

November 6, 2012

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, 2011. 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 financial activity related to coordinating the development of a comprehensive and coordinated state energy strategy as well as promoting deployment and manufacture of advanced energy technologies financed through revenue bonds issued under Ohio Revised Code (ORC) Section 166.08 by the State of Ohio. 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. Effective July 1, 2011, the operational and financial activity of the coal development activity was moved to the Ohio Department of Development by House Bill (HB) 153.

The aggregate financial information of all the 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, 2011 are as follows:

- Total net assets of OAQDA decreased by $11.2 million in 2011 from the $72.9 million reported at December 31, 2010 to $61.7 million one year later; all of which is reported within business-type activities.

- Governmental activities showed a decrease in net assets of $5.3 million during 2011; ending the year with no net assets. As noted above, adopted legislation (HB 153) moved the operational and financial activity of the coal development office from the OAQDA to the Ohio Department of Development effective July 1, 2011. As such, these financial statements report only the first half of calendar year 2011. The operations of the program reported a decrease in net assets of $2.4 million through June 30, 2011 and the remaining $3.0 million was transferred over to the Ohio Department of Development in July 2011.

- Business-type activities reported a decrease of net assets totaling $5.9 million for 2011; ending the year with $61.7 million at December 31, 2011. The Air Quality Development activity reported a decrease of net asset of $271,232 in 2011 as it was required to absorb more of the OAQDA operating expenses due to the coal development activity being assigned to the Ohio Department of Development for the second half of 2011. The Energy Strategy Development loan administration activity reported a decrease of net assets for 2011 totaling $5.6 million mainly due to recording an allowance for doubtful accounts totaling $5.1 million. It should be noted that all repayment of loan principal is required by legislation to be paid into an escrow account and transmitted to the Ohio Development Services Agency (DSA) to fund future energy projects as determined by DSA.

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 2011?" 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 loan administration activities are reported as enterprise funds as the intent of these programs is to recoup operational costs through the user fees or agency assessments. It should be noted that all repayment of loan principal is required by legislation to be paid into an escrow account and transmitted to the Ohio Development Services Agency (DSA) to fund future energy projects as determined by DSA.

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:

<u>Governmental Fund</u>

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 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. Remember that the operational and financial activity of the coal development activity was moved by HB 153 to the Ohio Department of Development effective July 1, 2011. Therefore, the financial activity reported within these financial statements, represent the operational results for the first half of 2011 only.

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. It should be noted that all repayment of loan principal is required by legislation to be paid into an escrow account and transmitted to the Ohio Development Services Agency (DSA) to fund future energy projects as determined by DSA. 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 $61.7 million at December 31, 2011.

Table 1 provides a summary of the OAQDA's net assets for 2011 compared to 2010:

TABLE 1
NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and Other Assets	$ -	$ 5,577	$ 62,295	$ 67,613	$ 62,295	$ 73,190
Capital Assets, Net	-	-	12	17	12	17
Total Assets	-	5,577	62,307	67,630	62,307	73,207
Liabilities						
Current and Other Liabilities	-	237	632	81	632	318
Total Liabilities	-	237	632	81	632	318
Net Assets:						
Invested in Capital Assets	-	-	12	17	12	17
Restricted:						
Coal Research & Development	-	5,340	-	-	-	5,340
Advanced Energy Projects	-	-	49,870	55,679	49,870	55,679
Program administration	-	-	2	-	2	-
Unrestricted	-	-	11,791	11,853	11,791	11,853
Net Assets	$ -	$ 5,340	$ 61,675	$ 67,549	$ 61,675	$ 72,889

As displayed in Table 1, the OAQDA reported $61.7 million in total net assets at December 31, 2011 compared with the $72.9 million reported for the prior year. Of the $61.7 million of net assets, $49.9 million was reported as restricted; $49.9 million for advanced energy projects and approximately $2,000 for remittance to the contractual loan service agent in conjunction with OAQDA's Energy Strategy Development activity.

The Air Quality Development activity reported a decrease of net asset of $271,232 in 2011 as it was required to absorb more of the OAQDA operating expenses due to the coal development activity being assigned to the Ohio Department of Development for the second half of 2011. The Energy Strategy Development activity reported a decrease of net assets for 2011 totaling $5.1 million mainly due to the recognition of an allowance of $4.6 million for doubtful accounts during the current year. As the Authority is simply the loan administrator for the advanced energy program loans, loan repayments are required by legislation to be paid into an separate financial account and transmitted to the DSA to fund future energy projects, it has incorporated DSA' guidelines for establishing allowances for doubtful accounts. Certain loans met criteria within the guidelines and therefore the appropriate allowance for doubtful accounts was established. Despite the establishment of the allowance for doubtful accounts, it is the Authority's intention to aggressively pursue all amounts owed under the program with the expectation that full payment will be made by all participants.

In 2010, the Energy Strategy Development activity reported $27.8 million in bond proceeds from the State of Ohio compared with no such revenues for 2011. The State, pursuant to ORC Section 166.08, issues debt when cash is needed, not when projects are approved; therefore the cash balance and net assets associated with this activity will fluctuate as loans payments are made or bonds are issued. The unique nature of the loan program accounted for within the Energy Strategy Development activity presents challenging issues regarding which agency should report certain assets of the program. The Authority has, and will continue to, work closely with DSA to determine the appropriate manner in which the advanced energy program loans and subsequent payments should be valued and reported. It should be noted that all repayment of loan principal is required by legislation to be paid into an escrow account and transmitted to DSA to fund future energy projects as determined by DSA.

Current and other assets of the OAQDA decreased by $10.9 million due to the close-out of the Coal Development activity in July 2011 as well as the recognition of the allowance for doubtful accounts.

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 2011, the revenue from the administrative fees decreased over $700,000 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 general revenue reported in 2010 for the Energy Strategy Development activity was associated with the receipt of the bond proceeds from the State; no such bond proceeds were received during 2011.

For the first six months of 2011, the Coal Development activity provided $2.4 million of grants to fund research and development projects for the use of coal throughout the State of Ohio. Financing for these grants was provided in prior years through the issuance of State of Ohio general obligation bonds, which was then passed through to OAQDA. As previously noted, all the operational and financial activity of the Coal Development activity was moved out of the OAQDA to the Ohio Department of Development as of July1, 2011. The final transfer of remaining assets totaled just under $3.0 million occurred in July 2011 and is reported as a special item within governmental activities.

Table 2 shows the changes in net assets for the years ended December 31, 2011 and 2010.

TABLE 2
CHANGE IN NET ASSETS (in 000s)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Revenue:						
Charges for services	$ -	$ -	$ 361	$ 1,134	$ 361	$ 1,134
Operating grants	112	271	435	704	547	975
General Revenue:						
General state assistance	-	-	-	27,816	-	27,816
Investment earnings	11	239	88	147	99	386
Loan interest and fees	-	-	377	-	377	-
Other	-	-	29	5	29	5
Total Revenue	123	510	1,290	29,806	1,413	30,316
Program Expenses:						
Community and economic development	2,503	36,638	-	-	2,503	36,638
Air quality development	-	-	1,090	1,146	1,090	1,146
Clean energy program	-	-	6,074	198	6,074	198
Total Program Expenses	2,503	36,638	7,164	1,344	9,667	37,982
Transfers	-	23	-	(23)	-	-
Special Item	(2,960)	-	-	-	(2,960)	-
Increase (Decrease) in Net Assets	$ (5,340)	$ (36,105)	$ (5,874)	$ 28,439	$ (11,214)	$ (7,666)

As noted above, the operating revenues of the business-type activities reported for 2011 decreased by approximately $1.1 million, or 54.1 percent, when compared with those reported for the prior year, due to lower fees received on issuance of bonds as well as lower inter-agency allocations and investment earnings. Ending unrestricted net assets of the Air Quality Development activity ($11.4 million) represents approximately 10.5 times the annual operating expenses reported for the activity. The vast majority of the ending net assets associated with the Energy Strategy Development activity is restricted for future energy loans. The large increase in expenses of the business-type activities is directly related to the recognition of the allowance for doubtful accounts in the financial statements which is described above. It should be noted that all repayment of loan principal is required by legislation to be paid into an escrow account and transmitted to the Ohio Development Services Agency (DSA) to fund future energy projects as determined by DSA.

Capital Assets

At December 31, 2011, the OAQDA had a total of $108,392 invested in capital assets less accumulated depreciation of $95,984 resulting in total capital assets, net of accumulated depreciation of $12,408. No individually significant capital asset addition was recorded for 2011 and depreciation expense for the year totaled $5,439.

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

Subsequent Financial Events

In July 2012, Senate Bill 315 was enacted which requires any unobligated cash balance remaining in the State fund and sub-funds, established to account for the proceeds of the 2010 sale of revenue bond obligations by the State of Ohio, be transferred from the Authority to the DSA. The effective date for the requirements of Senate Bill 315 is September 2012 and as of the date of these financial statements, the Authority is not able to determine the amount it will be required to transfer to the DSA as final determination has not yet been made on certain obligations which may fall under these requirements.

As the projects funded through the advanced energy loan program take shape, certain situations are being encountered by some participants that prohibit the original terms of the loan agreement to be complied with. As such, there was one loan which was declared to be in default, two loans that have been notified that they are in default, and another where it was necessary to restructure the original terms of the loan agreement. While it was, and will continue to be, anticipated that all loans would be settled in full, the speculative nature of the renewable energy industry as a whole does not make the difficulties encountered so far seem particularly abnormal. See Note 11 for additional details.

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 ASSETS
DECEMBER 31, 2011

	Governmental Activity	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	$ -	$ 35,651,539	$ 35,651,539
Cash and cash equivalents with fiscal agent	-	11,855,961	11,855,961
Receivables:			
Accounts	-	1,466	1,466
Accrued interest	-	48,827	48,827
Prepaid items	-	6,566	6,566
Restricted cash and cash equivalents with fiscal agent	-	897,987	897,987
Energy loans receivable, net of doubtful accounts	-	13,831,948	13,831,948
Capital assets, net of accumulated depreciation	-	12,408	12,408
Total Assets	-	62,306,702	62,306,702
Liabilities:			
Accounts payable	-	39,803	39,803
Accrued wages and benefits	-	6,504	6,504
Payable from restricted assets:			
Accounts payable	-	13,949	13,949
Intrastate payable	-	571,767	571,767
Total Liabilities	-	632,023	632,023
Net Assets:			
Invested in capital assets	-	12,408	12,408
Restricted for:			
Ohio Advanced Energy Projects	-	49,870,045	49,870,045
Remittance to program administrator	-	1,466	1,466
Unrestricted	-	11,790,760	11,790,760
Total Net Assets	$ -	$ 61,674,679	$ 61,674,679

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		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	$ 2,503,437	$ -	$ 111,913	$ (2,391,524)		$ (2,391,524)
Business-Type Activities:						
Air quality development	1,089,975	353,367	435,188		(301,420)	(301,420)
Energy strategy development	6,074,354	7,200	-		(6,067,154)	(6,067,154)
Total Business-Type Activities:	7,164,329	360,567	435,188		(6,368,574)	(6,368,574)
Total	$ 9,667,766	$ 360,567	$ 547,101	(2,391,524)	(6,368,574)	(8,760,098)
General Revenues:						
Investment earnings				11,360	88,491	99,851
Miscellaneous				-	29,358	29,358
Energy loan interest				-	361,180	361,180
Energy loan fees				-	15,415	15,415
Special Item - transfer of opinion unit				(2,959,767)	-	(2,959,767)
Total General Revenues and Special Item				(2,948,407)	494,444	(2,453,963)
Changes in net assets				(5,339,931)	(5,874,130)	(11,214,061)
Net assets at beginning of year				5,339,931	67,548,809	72,888,740
Net assets at end of year				$ -	$ 61,674,679	$ 61,674,679

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
DECEMBER 31, 2011

	Coal Development
Assets:	
Total Assets	$ -
Liabilities:	
Total Liabilities	-
Fund Balances:	
Total Fund Balance	-
Total Liabilities and Fund Balance	$ -

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, 2011

	Coal Development
Revenues:	
State assistance	$ 111,913
Investment earnings	11,360
Total revenues	123,273
Expenditures:	
Current:	
Community and economic development:	
Salaries and employee benefits	31,147
Professional fees	16,020
Research	26,690
Coal development grants	2,390,694
Office supplies and other administrative expenditures	24,720
Rental payments	14,166
Total expenditures	2,503,437
Excess of revenues over expenditures	(2,380,164)
Special Item:	
Transfer of opinion unit	(2,959,767)
Net change in fund balance	(5,339,931)
Fund balances, January 1, 2011	5,339,931
Fund balances, December 31, 2011	$ -

See accompanying notes to the basic financial statements.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2011

	Air Quality Development	Energy Strategy Development	Total
Assets:			
Current Assets:			
Cash and cash equivalents	$ 11,381,259	$ 24,270,280	$ 35,651,539
Cash and cash equivalents with fiscal agent	-	11,855,961	11,855,961
Accounts receivable	-	1,466	1,466
Accrued interest receivable	-	48,827	48,827
Energy loans receivable, net of doubtful accounts	-	4,609,961	4,609,961
Due from other funds	50,681	-	50,681
Prepaid items	5,524	1,042	6,566
Restricted cash and cash equivalents with fiscal agent	-	897,987	897,987
Total Current Assets	11,437,464	41,685,524	53,122,988
Noncurrent Assets:			
Energy loans receivable, net of doubtful accounts	-	9,221,987	9,221,987
Capital assets, net of accumulated depreciation	12,408	-	12,408
Total Noncurrent Assets	12,408	9,221,987	9,234,395
Total Assets	11,449,872	50,907,511	62,357,383
Liabilities:			
Current Liabilities:			
Accounts payable	29,900	9,903	39,803
Accrued wages and benefits	5,070	1,434	6,504
Due to other funds	-	50,681	50,681
Payable from restricted assets:			
Accounts payable	-	13,949	13,949
Intrastate payable	-	571,767	571,767
Total Liabilities	34,970	647,734	682,704
Net Assets:			
Invested in capital assets	12,408	-	12,408
Restricted for:			
Ohio Advanced Energy Projects	-	49,870,045	49,870,045
Remittance to program administrator	-	1,466	1,466
Unrestricted	11,402,494	388,266	11,790,760
Total Net Assets:	$ 11,414,902	$ 50,259,777	$ 61,674,679

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, 2011

	Air Quality Development	Energy Strategy Development	Total
Operating Revenues:			
Project administration fees	$ 348,854	$ -	$ 348,854
Small business ombudsman fees	265,148	-	265,148
Small business assistance program fees	170,040	-	170,040
Energy operation fees	4,513	7,200	11,713
Investment earnings	830	87,661	88,491
Miscellaneous	29,358	-	29,358
Total operating revenues	818,743	94,861	913,604
Operating Expenses:			
Salaries and employee benefits	322,858	23,733	346,591
Professional fees	154,419	59,496	213,915
Travel	8,284	-	8,284
Research grants and projects	313,683	11,537	325,220
Intrastate remittance expense	-	571,767	571,767
Office supplies and other administrative expenses	241,798	47,382	289,180
Depreciation	5,439	-	5,439
Rental expense	43,494	21,352	64,846
Loan incentive expense	-	264,400	264,400
Doubtful account expense	-	5,074,687	5,074,687
Total operating expenses	1,089,975	6,074,354	7,164,329
Operating income	(271,232)	(5,979,493)	(6,250,725)
Nonoperating revenues:			
Loan interest	-	361,180	361,180
Loan fees	-	15,415	15,415
Total nonoperating revenues:	-	376,595	376,595
Change in net assets	(271,232)	(5,602,898)	(5,874,130)
Net assets, January 1, 2011	11,686,134	55,862,675	67,548,809
Net assets, December 31, 2011	$ 11,414,902	$ 50,259,777	$ 61,674,679

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, 2011

	Air Quality Development	Energy Strategy Development	Total
Cash flows from operating activities:			
Receipts from customers	$ 395,698	$ 7,200	$ 402,898
Cash received from OEPA	435,188	-	435,188
Interest received	830	87,661	88,491
Other operating revenues	29,358	-	29,358
Payments to suppliers and vendors	(782,622)	(121,850)	(904,472)
Payments to employees	(334,919)	(29,231)	(364,150)
Net cash used by operating activities	(256,467)	(56,220)	(312,687)
Cash flows from non-capital financing activities:			
Energy loans issued	-	(7,555,862)	(7,555,862)
Energy loans principal repayment	-	571,767	571,767
Interest received on energy loans	-	312,353	312,353
Energy loans fees received	-	13,949	13,949
Advances to other funds	(50,681)	(14,918)	(65,599)
Advances from other funds	40,492	50,681	91,173
Net cash used by non-capital financing activites	(10,189)	(6,622,030)	(6,632,219)
Cash flows from capital and related financing activities:			
Purchase of capital assets	(634)	-	(634)
Net cash used by capital and related financing activities	(634)	-	(634)
Net decrease in cash and cash equivalents	(267,290)	(6,678,250)	(6,945,540)
Cash and cash equivalents - beginning of year (restated)	11,648,549	43,702,478	55,351,027
Cash and cash equivalents - end of year	$ 11,381,259	$ 37,024,228	$ 48,405,487
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$ (271,232)	$ (5,979,493)	$ (6,250,725)
Adjustments to reconcile operating loss to net cash by operating activities:			
Depreciation expense	5,439	-	5,439
Loan incentive expense	-	264,400	264,400
Increase in doubtful accounts	-	5,074,687	5,074,687
Decrease in accounts receivable	42,331	-	42,331
(Increase) decrease in prepaid expense	607	(135)	472
Increase (decrease) in accounts payable	(21,551)	18,052	(3,499)
(Decrease) in wages and benefits payable	(12,061)	(5,498)	(17,559)
Increase in intrastate payable	-	571,767	571,767
Net cash used by operating activities	$ (256,467)	$ (56,220)	$ (312,687)

See accompanying notes to the basic financial statements.

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1. GENERAL INFORMATION

Introduction

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

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

Conduit Debt Obligations

The Ohio Air Quality Development Authority may at any time issue revenue bonds and notes of the State in such principal amounts as, in the opinion of the Authority, are necessary for the purpose of paying any part of the cost of one or more air quality projects or parts thereof. The Authority may at any time issue renewal notes, issue bonds to pay such notes and, whenever it deems refunding expedient, refund any bonds by the issuance of air quality revenue refunding bonds of the State, whether the bonds to be refunded have or have not matured, and issue bonds partly to refund bonds then outstanding, and partly for any other authorized purpose. The renewal notes, bonds, and air quality revenue refunding bonds are issued under the Authority's name; however, they are not obligations of the Authority or the State of Ohio, but are backed by specific streams of revenue and additional collateralization as deemed necessary at the time of issuance. The unaudited aggregate amount of principal outstanding as of December 31, 2011 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.

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.

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.

On June 30, 2011, House Bill 153 transferred the Coal Development Program to the Ohio Department of Development effective July 1, 2011. Therefore, these financial statements only contain the financial activity of the Coal Development Program from January 1 to June 30, 2011 when the Coal Development Program was part of the Ohio Air Quality Development Authority.

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. During 2011, the Authority had one governmental fund (coal development) and two enterprise funds (air quality development and energy strategy development programs).

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. As previously mentioned, the operations of the Coal Development Office, as well as the associated financial activity, were transferred to the Ohio Department of Development effective July 1, 2011.

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

D. Measurement Focus

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.

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.

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. 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.

I. Advanced Energy Loans Receivables

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

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

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

J. Restricted Asset – Cash and Cash Equivalents

Restricted cash and cash equivalent represents the escrow account established for the receipt of payments associated with the energy loans, including principal, interest and fees. 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.

K. 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, 2011, was $108,392 and $95,984, respectively.

L. Enterprise Fund Revenue

Project Administrative Fees

In the Air Quality Development Activity, the Authority charges the borrower an administrative fee based on the size of the bond issue. From these administrative fees, the Authority pays all operating expenses for maintaining an office and full-time staff. In addition, the Authority engages in a research and development program that is funded from these administrative fees. The Authority recognizes the fees as revenue on the date the bond or note is sold which approximates the date the fee is received, since the fee is not legally due until that time.

Energy Operations Fees

For the Energy Strategy Development Activity, operating revenues to administer the program are derived from agreed upon assessments on other state agencies. From these fees, it is anticipated the Authority will pay all general operating and administrative costs associated with developing a state-wide energy savings strategy as well as promote advanced energy technologies by making grants available for qualifying projects.

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 as well as interest and fees received in association with the energy loans, are reported as non-operating revenues.

M. 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 2011, there were two such incentive clauses that were approved which resulted in $264,400 of loan repayments being forgiven.

N. Accrued Wages and Benefits

Accrued wages consist of wages payable to Authority employees as of December 31, 2011. The accrued wages balance consists of $6,504 owed to employees for work performed during the fiscal year but which they were not compensated until the subsequent year.

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.

Q. Special Item

Occasionally, significant transactions, subject to management's control, occur which are either unusual in nature or infrequent in occurrence. To avoid distorting the financial information of the Authority's normal operations, such items are segregated for reporting purposes. In 2011, the Authority was a party to a transaction which is defined as a special item; see Note 10 for additional details.

3. CASH AND CASH EQUIVALENTS

At fiscal year end, the carrying amount of the Authority's deposits was $48,405,487 and the bank balance was $48,405,487. 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, 2011 the Authority had $26,204 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, 2011, the balances for the Small Business Ombudsman and the Small Business Assistance programs were $981,206 and $3,078,142, 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, 2011, the balance for the energy strategy development program was $88,144 and the balance in the account in which bond proceeds were deposited into was $24,182,136.

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, 2011, the Authority had $7,295,707 in money market funds held in a trust account in the name of the Authority. The money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form.

Restricted Deposits – Energy Strategy Development Account: Receipts from the collection of repayment of loan principal, as well as interest and fees on the loans, is deposited into an checking account established at a local financial institution. This demand account had a carrying value of $897,987 at December 31, 2011 with a bank balance of the same amount. As the demand account is a noninterest-bearing account, the entire balance of $897,987 was covered by the Federal Deposit Insurance Corporation (FDIC) and considered fully insured.

Deposits with Fiscal Agent - Energy Strategy Development Individual Projects Escrow Accounts: Upon approval, the entire amounts of the energy strategy loans are paid into separate escrow accounts established at a local financial institution. These accounts are in the name of both the Authority as well as respective borrower. At December 31, 2011, the deposits in these escrow accounts totaled $11,855,961 of which $1,501,878 was covered by the FDIC and the remainder was subjected to custodial credit risk as it was not covered by FDIC coverage or collateral.

4. ENERGY LOANS RECEIVABLE

As of December 31, 2011, the Authority reports $13.8 million of advanced energy loans outstanding, which is net of $5.1 million in allowance for doubtful accounts, to various companies to finance energy conservation projects. Details of the loan receivables are as follows:

Loan Receivable	Year Loan Approved	Interest Rate	Approved Loan Amount	Loan Amount Outstanding	Scheduled Maturity
Buckeye Silicon	2010	2.00%	$ 1,428,000	$ 1,428,000	2017
Ohio Cooperative Solar	2010	1.00%	1,530,000	1,024,637	2016
Quasar Energy Group	2010	2.00%	3,045,000	2,535,597	2017
Technology Management Inc.	2010	2.00%	2,537,500	1,137,500	2015
Wayne Trail Technologies	2010	2.00%	838,440	511,676	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	368,906	2018
SoCore Solar Energy	2011	1.50%	5,237,400	2,740,319	2019
Stark County	2011	3.00%	1,500,000	-	2021
Gross Total			$ 31,542,120	18,906,635	
Less: Allowance for Uncollectible				(5,074,687)	
Net Energy Loans Receivable				$ 13,831,948	

During 2011, $8.1 million of new projects approved and closed upon. This amount was deposited into the appropriate escrow accounts awaiting disbursement. Disbursements out of these escrow accounts (addition to loans outstanding) totaled $7.6 million during the year and $571,767 of principal repayments (reduction in loans outstanding) was 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 $2.5 million. During 2011 $264,400 in loans outstanding were forgiven as the respective borrowers met the incentive clauses contained within the respective agreements.

At December 31, 2011 $4.6 million of energy loans are considered due within one year ($7.5 million in gross loans less $2.9 million in allowance for doubtful accounts) and $9.2 million are considered due in more than one year ($11.4 million in gross loans less $2.2 million in allowance for doubtful accounts).

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Office equipment	$ 107,758	$ 634	$ -	$ 108,392
Less accumulated depreciation for:				
Office equipment	(90,545)	(5,439)	-	(95,984)
Total capital assets, net	$ 17,213	$ (4,805)	$ -	$ 12,408

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 2011 was $79,012. The terms of the leases are not anticipated to change significantly in future fiscal years.

7. PENSION PLAN

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

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642, or by calling (614) 222-5601.

For the year ended December 31, 2011, 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 2011 was 14.00%. The Ohio Revised Code provides statutory authority for member and employer contributions. Total required employer contributions for pension obligations were $26,034, $39,298 and $48,002 for the years ending December 31, 2011, 2010, and 2009, respectively, and are equal to 100% of the amount billed to, and paid by, the Authority.

8. OTHER POST-EMPLOYMENT BENEFITS

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the combined plan was 6.05% during calendar year 2011. 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 numbered of covered dependents and the coverage selected.

The portion of the Authority's contributions to OPERS used to fund post-employment benefits for the years ended December 31, 2011, 2010 and 2009 were \$10,413, \$25,541 and \$34,709, respectively, and are equal to 100% of the required contributions for the each year.

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. INTERFUND ACTIVITY

At December 31, 2011, the energy strategy development program owed the air quality development activity \$50,681 for its share of the overhead operating expenses for the third and fourth quarters of 2011. The reimbursement of these funds is anticipated to occur during calendar year 2012.

10. SPECIAL ITEM – TRANSFER OF COAL DEVELOPMENT ACTIVITY

On June 30, 2011, House Bill 153 transferred the coal development activity to the Ohio Department of Development effective July 1, 2011. The total amount of financial resources transferred to the Ohio Department of Development for the coal development activity was $2,959,767 and is reported as a special item within these financial statements.

11. SUBSEQUENT EVENTS

Subsequent to year end, three participants in the advanced energy loan program have met the criteria to be in default of the terms of the original loan documents. In August 2012, the Authority deemed Willard and Kelsey to be in default of the terms contained within its loan agreement. As such, the Authority demanded the company make payment in full its outstanding loan balance of $5,100,000 (same as the amount outstanding at December 31, 2011) and as a result of the default declaration, payment of the entire amount outstanding was demanded by September 12, 2012 and therefore is reported in the accompanying financial statements as a component of current net energy loans receivable. In October 2012, the Authority notified Buckeye Silicon and Ohio Cooperative Solar that they were deemed to be in default and the appropriate allowance for doubtful accounts was established. However, as no formal declarations of default has been adopted as of the date of these financial statements for the Buckeye Silicon and Ohio Cooperative Solar loans, the outstanding loan balances of $1,428,000 and $1,024,637, respectively (same as the amounts outstanding at December 31, 2011) are reported net of the allowance for doubtful accounts in accordance with the original repayment schedules.

In addition, the terms of Xunlight's loan agreement with the Authority were restructured subsequent to year end. The following modifications became effective in October 2012: 1) scheduled principal, interest and service fees payments will be deferred through December 2013; 2) interest only payments will be required for calendar year 2014; 3) payment of principal and interest will begin in January 2015 with a balloon payment occurring on January 1, 2018; and 4) the payment of the 13 weeks of deferred interest payments will begin on January 1, 2013 for every preceding period in which the Company achieves 110 percent of its projected EBITDA. Since the Company requested term restructuring, it met the criteria for the establishment of an allowance for doubtful accounts and are reported as such within the financial statements.

In July 2012, Senate Bill 315 was enacted which requires any unobligated cash balance remaining in the State fund and sub-funds, established to account for the proceeds of the 2010 sale of revenue bond obligations by the State of Ohio, be transferred from the Authority to the DSA. The effective date for the requirements of Senate Bill 315 is September 2012 and as of the date of these financial statements, the Authority is not able to determine the amount it will be required to transfer to the DAS as final determination has not yet been made on certain obligations which may fall under these requirements.

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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, 2011

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
State assistance - general revenue	$ 142,101	$ 142,101	$ 122,072	$ (20,029)
Interest	-	-	11,360	11,360
Total Revenues	142,101	142,101	133,432	(8,669)
Expenditures:				
Current:				
General fund	142,101	142,101	122,072	20,029
Coal research and development	22,486,761	22,486,761	5,577,039	16,909,722
Total Expenditures	22,628,862	22,628,862	5,699,111	16,929,751
Change in Fund Balance	(22,486,761)	(22,486,761)	(5,565,679)	16,921,082
Fund Balance at Beginning of Year - Restated	(11,933,211)	(11,933,211)	(11,933,211)	-
Prior Year Encumbrances Appropriated	17,498,890	17,498,890	17,498,890	-
Fund Balance at End of Year	$ (16,921,082)	$ (16,921,082)	$ -	$ 16,921,082

See accompanying notes to the required supplementary information.

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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 2011 State budget. The final budgetary amounts do not change as no budget authority for the coal development program was approved for the Authority in the fiscal year 2012 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, 2011, whenever signed into law or otherwise legally authorized.

Budgetary Fund Balance Restatement

During 2011, it was determined the ending actual budgetary fund balance was overstated by $385,164 due to an error in reporting encumbrances. As such, the beginning budgetary fund balance was restated to ($11,933,211) from the ($11,548,047) previously reported.

Reconciliation

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, 2011

GAAP basis	$ (5,339,931)
Revenue accruals	10,159
Expenditure accruals	(235,907)
Budgetary basis	$ (5,565,679)

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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, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 6, 2012. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies 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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

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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 also noted certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated November 6, 2012.

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

Dave Yost
Auditor of State

November 6, 2012

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2012-01

MATERIAL WEAKNESS

FINANCIAL REPORTING AND POLICIES AND PROCEDURES

Effective internal controls over financial reporting and the use of formal financial reporting policies and procedures help to prevent or detect misstatements in the accounting records and financial statements and reasonably ensure compliance with laws, regulations and accounting principles generally accepted in the United States of America. Management is ultimately responsible for the overall presentation of the entity's statements, as well as compliance with applicable laws, regulations and accounting principles, even if portions of the preparation process are contracted to a third party.

The Authority contracted with an independent accounting firm to compile their 2011 financial statements based on information provided by management. Although the financial statements were reviewed by the Authority's Interim Executive Director, Fiscal Officer and Board members, several material misstatements were identified and underlying accounting records indicate the Authority's monitoring and review procedures were not sufficient. The original statements presented for audit included several material misstatements, as detailed below, after being made aware of these issues, the Authority made the necessary changes to the financial statements and related disclosures.

- The Authority awarded $8.1 million in advanced energy loans during calendar year 2011 to various companies to finance their energy projects. Repayments of these loans began in calendar year 2011 and each loan payment included a loan servicing fee. However, the amounts reported for the Energy Strategy Development Opinion Unit did not agree to supporting documentation and/or otherwise required adjustments, as detailed below:
    - Principal Forgiveness totaling $264,400 was not recognized
    - Allowance for Doubtful Accounts totaling $4,613,600 was not recognized
    - Intrastate Payable totaling $571,767 was not recognized; the Authority received principal repayments in 2011, but had not yet transferred the monies to another State agency as required by Ohio Revised Code §3706.27
    - Accounts Payable totaling $13,949 was not recognized for service fee repayments in 2011
    - Cash and cash equivalents with fiscal agent (i.e., monies held in escrow) totaling $11,853,960 was misclassified. This represented amounts awarded but not yet drawn by the loan recipients. These amounts were originally recorded within the Energy Loans Receivable even though the recipients had no obligation for repayment until funds were drawn from the account.

- The Coal Development program was transferred to another State agency on July 1, 2011. After the transfer, transactions were recorded in QuickBooks in an attempt to reconcile the Coal Development fund by the Authority. However, these transactions were not for expenditures related to/paid by the Authority. As a result, grant expenditures for the Coal Development opinion unit were overstated by $486,559 and the transfer of the opinion unit on the income statement was understated by the same amount.

Adjustments to corresponding footnotes were required to correct the errors and/or include the necessary disclosures related to the Energy Loans Receivables, Principal Forgiveness, Allowance for Doubtful Accounts, and Subsequent Events regarding the restructure/modification of the energy loans.

In addition, the Authority's Financial Reporting Policies and Procedures were partially updated and approved by the Authority on February 8, 2011. However, the updated policies and procedures did not include all of the Authority's significant activities, funds, and line items identified below:

- Energy Strategy Development activity and its funds within the Financial Reporting Fund Accounting, Loan Process, Receivables, Payables, Escrow Accounts, Principal Forgiveness, and Allowance for Doubtful Accounts
- Restricted Assets within the Business-Type Activity opinion units
- Investment income, how it is earned or the source of the income
- Expenditure allocation process and recognition of each fund

Furthermore, adjustments to the Required Supplementary Information's Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget (Non-GAAP) and Actual Statement for Coal Development required five adjustments for the original budgeted amounts, as detailed below:

- State Assistance Revenue was understated by $6,164
- General Fund Expenditure was understated by $6,164
- Coal Research and Development Expenditure was overstated by $226,578
- Fund Balance at Beginning of Year was understated by $220,414
- Prior Year Encumbrance Appropriated was overstated by $220,414 due to the Reserve for Encumbrance amounts being used instead of Total Actual Encumbrance amounts from the prior year

If controls or oversight of the accounting and financial reporting processes are not in place and operating effectively and without a complete set of financial reporting policies and procedures, there is an increased risk the financial statements could be inaccurate, errors could occur and not be detected, and procedural changes or accounting guidance may not be properly or consistently implemented. Inaccurate financial statements would provide state government and external parties erroneous information about the Authority.

According to the Authority's management, the financial statement misstatements and the Financial Reporting Policies and Procedures were not updated to incorporate the Advanced Energy Program due to the turnover of the Fiscal Officer/Office Manager positions between calendar year 2010 and 2011. The Fiscal Officer position was vacant for calendar year 2011.

We recommend the Authority strengthen and improve existing internal controls over the financial reporting process, as well as updating their financial reporting policies and procedures, to reasonably ensure errors are identified and addressed by management prior to presenting the financial statements for audit. We recommend the Authority's personnel attend training to help ensure their understanding of the accounting standards relevant to the Authority is complete and remains current. The policies and procedures should be evaluated annually to incorporate the Authority's planned approach for new GASB Statements and other applicable changes. We also recommend the Authority consult with the auditor in the early stages of implementing any significant changes to assist in evaluating their implementation approach. In addition, we recommend the Authority's management and its members perform a thorough review of the compiled financial statements and compare them to the previous year's audited financial statements to identify and investigate any significant, unusual, or unexpected variances/fluctuations. These reviews should be documented in some manner and maintained according to record retention policies.

Official's Response:

In an effort to provide context that might be helpful, the Authority would like to make note of some circumstances that led to the required revisions and changes that will be implemented to ensure accuracy in reporting.

A group of revisions was requested related to the way Energy Strategy Development activity was reported. It is important to note that the amounts were accounted for, that no money was missing or misspent, and the original statements included activity according to information that was available at the time.

- The amortization schedules provided by the loan servicing agency were used to prepare the statements, and had not been updated to include loan forgiveness amounts. Prior to preparing financial statements, the fiscal officer will sent a letter to the loan servicing agency requesting updated loan amounts, including loan forgiveness. This procedure will be added to the operations manual.
- Development and implementation of the policies for doubtful accounts was limited by a lack of coordination between this loan program and others outlined in Ohio Revised Code Chapter 166 Economic Development Program, which authorizes the Advanced Energy loan program. The Authority has since begun coordinating with the Office of Financial Incentives regarding policies relating to similar ORC 166 programs. We recommend incorporating the various ORC 166 loan programs into a single financial statement in order to further improve coordination.
- The amount required to be transferred by ORC 3706.27 was recorded as a restricted asset because the existing statute was being amended prior to the transfer. At the time of the preparation of the statements, the legislation had not yet been passed. Since that time, the amendments to ORC 3706.27 have been enacted and, as such, the payable is appropriate.
- The accounts payable for the loan service fee was initially recorded as a restricted asset because at the time, an invoice had not been received. Since that time the invoice was received and the payable was deemed appropriate.
- The cash and cash equivalents with fiscal agent were recorded as loan receivables for the FY 2010 statements. As such, precedence dictated that the amounts would be recorded in a similar manner. When the auditor suggested a modified approach in 2011, the proper adjustments were made.

Another group of revisions was requested by the Auditor's team relating to the Coal Development program. It is important to note that in this group as well, no money was missing or misspent, and the original statements were revised as soon as the entries were noted by the Auditor.

- During the period this statement covers, the Authority did not employ a fiscal officer and the fiscal duties were assigned to the acting OAQDA office manager. The procedures outlined in the operations manual were to reconcile the cash balance of all funds that appeared on the standard OAKS reports. Due to the way the program was transferred, the fund was still appearing in these reports. As such, the office manager recorded transactions in order to reconcile the cash balance. The reports no longer include this fund and the current fiscal officer has since removed these transactions. In the future, the fiscal officer will create a reconciling debit to simulate a transfer if fund ownership is transferred rather than cash. This will be a standard procedure added to the operations manual.
- Other adjustments proposed by the auditors to the GAAP compiler resulted from a formula error not caught during the GAAP conversion and correcting entries were made to the Schedule. These adjustments were not deemed significant to the Required Supplementary Schedule taken as a whole by the Authority.

The corresponding footnotes were updated to reflect the adjustments requested. In addition, the significant accounting policies as developed for the 2011 statements will be reviewed by the board to determine if these will be adopted into the Authority's Financial Reporting Policies and Procedures. The fiscal officer is coordinating with the bank agent to outline the investment income as it pertains to all accounts held by the bank. The expenditure process for each fund is outlined in separate documents.

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OHIO AIR QUALITY DEVELOPMENT AUTHORITY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 15, 2012

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