



Dave Yost • Auditor of State



**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
DECEMBER 31, 2015**

**TABLE OF CONTENTS**

| <b>TITLE</b>  | <b>PAGE</b> |
|---|-------------|
| Independent Auditor's Report .....  | 1           |
| Management's Discussion and Analysis.....   | 5           |
| Basic Financial Statements  |             |
| Statement of Net Position – Enterprise Funds .....  | 11          |
| Statement of Revenues, Expenses, and<br>Changes in Net Position – Enterprise Funds.....   | 12          |
| Statement of Cash Flows – Enterprise Funds.....   | 13          |
| Statement of Fiduciary Assets and Liabilities – Agency Fund .....   | 15          |
| Notes to the Financial Statements.....  | 17          |
| Required Supplementary Information  |             |
| Schedule of the Authority's Proportionate Share of the<br>Net Pension Liability – Ohio Public Employees Retirement System.....  | 36          |
| Schedule of Contributions – Ohio Public Employees Retirement System .....   | 37          |
| Supplementary Information   |             |
| Schedule of Changes in Assets and Liabilities – Agency Fund .....   | 40          |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on<br>Compliance and Other Matters Required by <i>Government Auditing Standards</i> ..... | 41          |
| Schedule of Findings.....   | 43          |
| Summary Schedule of Prior Audit Findings .....  | 46          |

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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, 2015, 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 Ohio Air Quality Development Authority as of December 31, 2015, 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 2, 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, 2016, 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.

As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. We did not modify our opinion regarding 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*, and schedules of net pension liabilities and pension contributions, 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 November 9, 2016, 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 style with a large, looping "D" and "Y".

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

November 9, 2016

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**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(Unaudited)

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This discussion and analysis section of the Ohio Air Quality Development Authority (OAQDA) annual financial report provides an overall review of OAQDA's financial activities for the year ended December 31, 2015. 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 2015, 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, 2015 are as follows:

- Total net position of OAQDA decreased by \$7.6 million in 2015 from the \$33.1 million restated for December 31, 2014 to \$25.5 million one year later. This decrease can be attributed to the \$8.1 million decrease in energy loans receivable reported at December 31, 2015 compared to that reported at the end of the prior year. Loan repayments and settlements accounted for \$2.2 million of the decrease in the energy loans while the remainder was recognized as an increase in the doubtful accounts associated with those loans during the year.
- Total revenues of the OAQDA's enterprise activities decreased by approximately \$205,000 or 12.0 percent compared to those reported for the prior year. The decrease in project administration fees resulted from fewer bond closures occurring in 2015 compared with those closed in 2014. The decrease in energy loan income resulted from a decrease in loan interest payments recognized for 2015 as principal amounts outstanding decreased significantly due to principal payments and settlements during the year.
- The total expenses of the two enterprise activities of OAQDA reported for 2015 was \$9.1 million compared with the \$4.8 million reported for 2014. The most significant increase reported for the year was related to doubtful accounts expense. In 2015, the Attorney General's Office entered into settlement agreements for three separate loans which had previously been declared in default by the Authority and assigned to the Attorney General's Office for collection. As a result of these settlements, as well as another loan determined to need an allowance established for excessive deferrals during the year, the expense associated with doubtful accounts increased significantly for the year ended December 31, 2015. Loan incentive expense decreased significantly as no forgiveness of loan amounts were approved during 2015. Intrastate remittance expense increased as principal and interest payments associated with the energy loans increased over those reported in 2014.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(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, 2015. 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 2015 and 2014, respectively.

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

|  | 2015              | Restated<br>2014  | Dollar<br>Change   | Percent<br>Change |
|--|-------------------|-------------------|--------------------|-------------------|
| <i>Assets:</i>                         |                   |                   |                    |                   |
| Current and Other Assets               | \$ 27,564,166     | \$ 34,219,848     | \$ (6,655,682)     | -19.45%           |
| Capital Assets, Net                    | 3,601             | 5,067             | (1,466)            | -28.93%           |
| Total Assets                           | <u>27,567,767</u> | <u>34,224,915</u> | <u>(6,657,148)</u> | <u>-19.45%</u>    |
| <i>Deferred Outflows of Resources:</i> |                   |                   |                    |                   |
| Pension                                | 46,790            | 35,807            | 10,983             | 30.67%            |
| <i>Liabilities</i>                     |                   |                   |                    |                   |
| Current and Other Liabilities          | 1,913,067         | 935,054           | 978,013            | 104.59%           |
| <i>Long-Term Liabilities:</i>          |                   |                   |                    |                   |
| Due within One Year                    | -                 | -                 | -                  | -                 |
| Due in more than One Year - Pension    | 178,341           | 182,164           | (3,823)            | -2.10%            |
| Total Liabilities                      | <u>2,091,408</u>  | <u>1,117,218</u>  | <u>974,190</u>     | <u>87.20%</u>     |

(continued)

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(Unaudited)

**TABLE 1**  
**NET POSITION**  
(continued)

|                                       | 2015                 | Restated<br>2014     | Dollar<br>Change      | Percent<br>Change |
|---------------------------------------|----------------------|----------------------|-----------------------|-------------------|
| <i>Deferred Inflows of Resources:</i> |                      |                      |                       |                   |
| Pension                               | 6,727                | -                    | 6,727                 | n/a               |
| <i>Net Position:</i>                  |                      |                      |                       |                   |
| Invested in Capital Assets            | 3,601                | 5,067                | (1,466)               | -28.93%           |
| <i>Restricted:</i>                    |                      |                      |                       |                   |
| Existing Advanced Energy Projects     | 13,172,842           | 21,255,827           | (8,082,985)           | -38.03%           |
| Ohio Development Services             | 49,977               | 51,623               | (1,646)               | -3.19%            |
| Program administration                | -                    | 800                  | (800)                 | -100.00%          |
| Unrestricted                          | 12,290,002           | 11,830,187           | 459,815               | 3.89%             |
| Net Position                          | <u>\$ 25,516,422</u> | <u>\$ 33,143,504</u> | <u>\$ (7,627,082)</u> | <u>-23.01%</u>    |

Table 2 shows the changes in net position for the years ended December 31, 2015 and 2014.

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

|                                  | 2015                 | Restated<br>2014     | Dollar<br>Change      | Percent<br>Change |
|----------------------------------|----------------------|----------------------|-----------------------|-------------------|
| <i>Operating Revenues:</i>       |                      |                      |                       |                   |
| Project administration fees      | \$ 793,892           | \$ 889,148           | \$ (95,256)           | -10.71%           |
| EPA fees                         | 363,799              | 368,660              | (4,861)               | -1.32%            |
| Energy operation fees            | 176,175              | 176,394              | (219)                 | -0.12%            |
| Energy loan income               | 68,037               | 166,556              | (98,519)              | -59.15%           |
| Miscellaneous                    | 11,182               | 11,690               | (508)                 | -4.35%            |
| <i>Non-Operating Revenues:</i>   |                      |                      |                       |                   |
| Investment earnings              | 96,641               | 102,729              | (6,088)               | -5.93%            |
| Total Revenue                    | <u>1,509,726</u>     | <u>1,715,177</u>     | <u>(205,451)</u>      | <u>-11.98%</u>    |
| <i>Operating Expenses:</i>       |                      |                      |                       |                   |
| Salaries and benefits            | 454,242              | 476,269              | (22,027)              | -4.62%            |
| Professional fees                | 275,900              | 361,804              | (85,904)              | -23.74%           |
| Travel                           | 2,189                | 8,798                | (6,609)               | -75.12%           |
| Research grants/projects         | 38,943               | 5,180                | 33,763                | 651.80%           |
| Intrastate remittance            | 2,260,660            | 1,865,694            | 394,966               | 21.17%            |
| Administrative/office supplies   | 114,836              | 123,123              | (8,287)               | -6.73%            |
| Depreciation                     | 1,466                | 1,605                | (139)                 | -8.66%            |
| Rental                           | 68,236               | 67,050               | 1,186                 | 1.77%             |
| Loan incentive                   | -                    | 1,062,817            | (1,062,817)           | -100.00%          |
| Doubtful accounts                | 5,920,336            | 856,640              | 5,063,696             | 591.11%           |
| Total Expenses                   | <u>9,136,808</u>     | <u>4,828,980</u>     | <u>4,307,828</u>      | <u>89.21%</u>     |
| Change in net position           | (7,627,082)          | (3,113,803)          | (4,513,279)           | 144.94%           |
| Net position, January 1          | 33,143,504           | 36,403,664           | (3,260,160)           | -8.96%            |
| Restatement to implement GASB 68 | -                    | (146,357)            | 146,357               | -100.00%          |
| Net position, December 31        | <u>\$ 25,516,422</u> | <u>\$ 33,143,504</u> | <u>\$ (7,627,082)</u> | <u>-23.01%</u>    |

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(Unaudited)

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As displayed in Table 1, the OAQDA reported a net position of \$25.5 million at December 31, 2015 compared to the \$33.1 million reported for the prior year. Net position at year-end restricted for specific purposes totaled \$13.2 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, 2015 the unrestricted net position of the air quality development activity represents over 18.5 times the total annual operating expenses for the activity.

During 2015, the Authority adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules, however there is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the Authority. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(Unaudited)

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how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Authority's financial statements include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Authority is reporting a net pension liability and deferred inflows/outflows of resources related to pension for the first time for the year ended December 31, 2015. This implementation also had the effect of restating net position at December 31, 2014, from \$33.3 million to \$33.1 million.

Overall total net position of OAQDA decreased by \$7.6 million in 2015; net position of the air quality development activity increased by \$381,235 while the net position of the energy strategy development activity decreased by just over \$8.0 million. The increase in the net position of the air quality development activity during the year resulted as project administration and small business fees received during the year were more than sufficient to fund current year expenses. 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 doubtful account expense, are recognized in the period the criteria to record these expenses are realized. As such, the two largest expenses of the energy strategy development activity for 2015 were loan related; doubtful account expense of \$5.9 million and intrastate remittance (transfer of loan repayments and interest to DSA) expense of \$2.3 million. Total restricted net position reported for the energy strategy development activity at the end of 2015 was \$8.1 million less than compared to one year prior due to the decrease in energy loans receivable reported at December 31, 2015 compared to that reported for the prior year. Loan repayments and settlements accounted for \$2.2 million of the decrease in the energy loans while the remainder was recognized as an increase in the doubtful accounts associated with those loans during the year.

Table 2 shows total revenues of the OAQDA's enterprise activities decreased by \$205,451 or 12.0 percent compared to those reported for the prior year. The decrease in project administration fees resulted from fewer bond closures occurring in 2015 compared with those closed in 2014. The decrease in energy loan income resulted from a decrease in loan interest payments recognized for 2015 as principal amounts outstanding decreased significantly due to principal payments and settlements during the year.

The total expenses of the two enterprise activities of OAQDA reported for 2015 was \$9.1 million compared with the \$4.8 million reported for 2014. The most significant increase reported for the year was related to doubtful accounts expense. In 2015, the Attorney General's Office entered into settlement agreements for three separate loans which had previously been declared in default by the Authority and assigned to the Attorney General's Office for collection. As a result of these settlements, as well as another loan determined to need an allowance established for excessive deferrals during the year, the expense associated with doubtful accounts increased significantly for the year ended December 31, 2015. Loan incentive expense decreased significantly as no forgiveness of loan amounts were approved during 2015. Intrastate remittance expense increased as principal and interest payments associated with the energy loans increased over those reported in 2014. Professional fees expense decreased for 2015 compared to the 2014 amounts as the Authority required fewer services related to contracted legal and administrative services during 2015.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
(Unaudited)

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**Capital Assets**

At December 31, 2015, the OAQDA had a total of \$90,430 invested in capital assets less accumulated depreciation of \$86,829 resulting in total capital assets, net of accumulated depreciation of \$3,601. There were no capital asset additions recorded for 2015 and depreciation expense for the year totaled \$1,466. Additional information on the OAQDA's capital assets can be found in Note 6 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, 2015**

|   | Air Quality<br>Development | Energy Strategy<br>Development | Total                |
|---|----------------------------|--------------------------------|----------------------|
| <b>Assets:</b>                                      |                            |                                |                      |
| Current Assets:                                     |                            |                                |                      |
| Cash and cash equivalents                           | \$ 6,606,251               | \$ 7,827,086                   | \$ 14,433,337        |
| Investments   | 997,636                    | -                              | 997,636              |
| Cash and cash equivalents with fiscal agent         | -                          | 548                            | 548                  |
| Accounts receivable                                 | 56                         | 24                             | 80                   |
| Accrued interest receivable:                        |                            |                                |                      |
| Income from loan interest, net of doubtful accounts | -                          | 49,977                         | 49,977               |
| Investment income                                   | 17,164                     | -                              | 17,164               |
| Energy loans receivable, net of doubtful accounts   | -                          | 4,634,580                      | 4,634,580            |
| Due from other funds                                | 86,193                     | -                              | 86,193               |
| Prepaid items                                       | 2,284                      | 979                            | 3,263                |
| Restricted assets:                                  |                            |                                |                      |
| Cash and cash equivalents with fiscal agent         | -                          | 1,782,569                      | 1,782,569            |
| <b>Total Current Assets</b>                         | <b>7,709,584</b>           | <b>14,295,763</b>              | <b>22,005,347</b>    |
| Noncurrent Assets:                                  |                            |                                |                      |
| Investments   | 4,726,391                  | -                              | 4,726,391            |
| Energy loans receivable, net of doubtful accounts   | -                          | 832,428                        | 832,428              |
| Capital assets, net of accumulated depreciation     | 3,601                      | -                              | 3,601                |
| <b>Total Noncurrent Assets</b>                      | <b>4,729,992</b>           | <b>832,428</b>                 | <b>5,562,420</b>     |
| <b>Total Assets</b>                                 | <b>12,439,576</b>          | <b>15,128,191</b>              | <b>27,567,767</b>    |
| <b>Deferred Outflows of Resources:</b>              |                            |                                |                      |
| Pension   | 32,753                     | 14,037                         | 46,790               |
|   |                            |                                |                      |
| <b>Liabilities:</b>                                 |                            |                                |                      |
| Current Liabilities:                                |                            |                                |                      |
| Accounts payable                                    | 21,698                     | 343                            | 22,041               |
| Accrued wages and benefits                          | 15,584                     | 6,680                          | 22,264               |
| Due to other funds                                  | -                          | 86,193                         | 86,193               |
| Payable from restricted assets:                     |                            |                                |                      |
| Accounts payable                                    | -                          | 8,457                          | 8,457                |
| Intrastate payable                                  | -                          | 1,774,112                      | 1,774,112            |
| <b>Total Current Liabilities</b>                    | <b>37,282</b>              | <b>1,875,785</b>               | <b>1,913,067</b>     |
| Noncurrent Liabilities:                             |                            |                                |                      |
| Net pension liability                               | 124,839                    | 53,502                         | 178,341              |
| <b>Total Liabilities</b>                            | <b>162,121</b>             | <b>1,929,287</b>               | <b>2,091,408</b>     |
| <b>Deferred Inflows of Resources:</b>               |                            |                                |                      |
| Pension   | 4,709                      | 2,018                          | 6,727                |
|   |                            |                                |                      |
| <b>Net Position:</b>                                |                            |                                |                      |
| Investment in net capital assets                    | 3,601                      | -                              | 3,601                |
| Restricted for:                                     |                            |                                |                      |
| Existing Ohio Advanced Energy Projects              | -                          | 13,172,842                     | 13,172,842           |
| Remittance to Ohio Development Services Agency      | -                          | 49,977                         | 49,977               |
| Unrestricted  | 12,301,898                 | (11,896)                       | 12,290,002           |
| <b>Total Net Position</b>                           | <b>\$ 12,305,499</b>       | <b>\$ 13,210,923</b>           | <b>\$ 25,516,422</b> |

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, 2015**

|   | Air Quality<br>Development | Energy Strategy<br>Development | Total                |
|---|----------------------------|--------------------------------|----------------------|
| <b>Operating Revenues:</b>                        |                            |                                |                      |
| Project administration fees                       | \$ 793,892                 | \$ -                           | \$ 793,892           |
| Small business ombudsman fees                     | 227,731                    | -                              | 227,731              |
| Small business assistance program fees            | 136,068                    | -                              | 136,068              |
| Energy operation fees                             | -                          | 176,175                        | 176,175              |
| Energy loan Income:                               |                            |                                |                      |
| Loan interest                                     | -                          | 59,237                         | 59,237               |
| Loan fees   | -                          | 8,800                          | 8,800                |
| Miscellaneous                                     | 11,182                     | -                              | 11,182               |
|   | <u>1,168,873</u>           | <u>244,212</u>                 | <u>1,413,085</u>     |
| Total operating revenues                          |                            |                                |                      |
| <b>Operating Expenses:</b>                        |                            |                                |                      |
| Salaries and employee benefits                    | 317,965                    | 136,277                        | 454,242              |
| Professional fees                                 | 175,705                    | 100,195                        | 275,900              |
| Travel  | 1,927                      | 262                            | 2,189                |
| Research grants and projects                      | 38,943                     | -                              | 38,943               |
| Intrastate remittance expense                     | -                          | 2,260,660                      | 2,260,660            |
| Office supplies and other administrative expenses | 80,855                     | 33,981                         | 114,836              |
| Depreciation                                      | 1,466                      | -                              | 1,466                |
| Rental expense                                    | 47,979                     | 20,257                         | 68,236               |
| Doubtful account expense                          | -                          | 5,920,336                      | 5,920,336            |
|   | <u>664,840</u>             | <u>8,471,968</u>               | <u>9,136,808</u>     |
| Total operating expenses                          |                            |                                |                      |
| Operating income (loss)                           | 504,033                    | (8,227,756)                    | (7,723,723)          |
| <b>Nonoperating revenues (expenses):</b>          |                            |                                |                      |
| Investment earnings:                              |                            |                                |                      |
| Interest revenue                                  | 47,607                     | 37,128                         | 84,735               |
| Change in fair value of investments               | 11,906                     | -                              | 11,906               |
|   | <u>59,513</u>              | <u>37,128</u>                  | <u>96,641</u>        |
| Total nonoperating revenues (expenses):           |                            |                                |                      |
| Transfers in                                      | -                          | 182,311                        | 182,311              |
| Transfers out                                     | (182,311)                  | -                              | (182,311)            |
| Change in net position                            | 381,235                    | (8,008,317)                    | (7,627,082)          |
| Net position, January 1, 2015 (restated)          | <u>11,924,264</u>          | <u>21,219,240</u>              | <u>33,143,504</u>    |
| Net position, December 31, 2015                   | <u>\$ 12,305,499</u>       | <u>\$ 13,210,923</u>           | <u>\$ 25,516,422</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, 2015**

|   | Air Quality<br>Development | Energy Strategy<br>Development | Total                |
|---|----------------------------|--------------------------------|----------------------|
| <b>Cash flows from operating activities:</b>                  |                            |                                |                      |
| Receipts from customers                                       | \$ 899,988                 | \$ 176,175                     | \$ 1,076,163         |
| Cash received from OEPA                                       | 363,799                    | -                              | 363,799              |
| Energy loans principal repayment                              | -                          | 2,199,777                      | 2,199,777            |
| Interest received on energy loans                             | -                          | 60,883                         | 60,883               |
| Energy loans fees received                                    | -                          | 9,600                          | 9,600                |
| Other operating revenues                                      | 11,182                     | -                              | 11,182               |
| Intrastate payments   | -                          | (1,251,905)                    | (1,251,905)          |
| Payments to suppliers and vendors                             | (324,750)                  | (164,955)                      | (489,705)            |
| Payments to employees   | (324,403)                  | (139,035)                      | (463,438)            |
| Net cash provided by operating activities                     | <u>625,816</u>             | <u>890,540</u>                 | <u>1,516,356</u>     |
| <b>Cash flows from non-capital financing activities:</b>      |                            |                                |                      |
| Transfers to other funds                                      | (182,311)                  | -                              | (182,311)            |
| Transfers from other funds                                    | -                          | 182,311                        | 182,311              |
| Advances to other funds                                       | -                          | (31,439)                       | (31,439)             |
| Advances from other funds                                     | 31,439                     | -                              | 31,439               |
| Net cash provided (used) by non-capital financing activities  | <u>(150,872)</u>           | <u>150,872</u>                 | <u>-</u>             |
| <b>Cash flows from investing activities:</b>                  |                            |                                |                      |
| Purchase of investments                                       | (2,838,682)                | -                              | (2,838,682)          |
| Sale of investments   | 2,764,794                  | -                              | 2,764,794            |
| Investment earnings   | 37,961                     | 37,128                         | 75,089               |
| Net cash provided (used) by investing activities              | <u>(35,927)</u>            | <u>37,128</u>                  | <u>1,201</u>         |
| Net increase in cash and cash equivalents                     | 439,017                    | 1,078,540                      | 1,517,557            |
| Cash and cash equivalents - beginning of year                 | <u>6,167,234</u>           | <u>8,531,663</u>               | <u>14,698,897</u>    |
| Cash and cash equivalents - end of year                       | <u>\$ 6,606,251</u>        | <u>\$ 9,610,203</u>            | <u>\$ 16,216,454</u> |
| <b>Cash and cash equivalents - Statement of Net Position:</b> |                            |                                |                      |
| Unrestricted:   |                            |                                |                      |
| Cash and cash equivalents                                     | \$ 6,606,251               | \$ 7,827,086                   | \$ 14,433,337        |
| Cash and cash equivalents with fiscal agent                   | -                          | 548                            | 548                  |
| Restricted  |                            |                                |                      |
| Cash and cash equivalents with fiscal agent                   | <u>-</u>                   | <u>1,782,569</u>               | <u>1,782,569</u>     |
| Total cash and cash equivalents                               | <u>\$ 6,606,251</u>        | <u>\$ 9,610,203</u>            | <u>\$ 16,216,454</u> |

(Continued)

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(Continued)**

|  | Air Quality<br>Development | Energy Strategy<br>Development | Total          |
|--|----------------------------|--------------------------------|----------------|
| <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b> |                            |                                |                |
| Operating income (loss)  | \$ 504,033                 | \$ (8,227,756)                 | \$ (7,723,723) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |                            |                                |                |
| Depreciation expense   | 1,466                      | -                              | 1,466          |
| Decrease in energy loans receivable  | -                          | 8,120,113                      | 8,120,113      |
| Decrease in accounts receivable  | 106,040                    | 776                            | 106,816        |
| Decrease in loan interest receivable   | -                          | 1,646                          | 1,646          |
| Decrease in prepaid expense  | 6,066                      | 2,599                          | 8,665          |
| Increase in deferred outflows of resources   | (7,688)                    | (3,295)                        | (10,983)       |
| Increase (Decrease) in accounts payable  | 14,649                     | (12,835)                       | 1,814          |
| (Decrease) in wages and benefits payable   | (783)                      | (334)                          | (1,117)        |
| Increase in intrastate payable   | -                          | 1,008,755                      | 1,008,755      |
| (Decrease) in net pension payable  | (2,676)                    | (1,147)                        | (3,823)        |
| Increase in deferred inflows of resources  | 4,709                      | 2,018                          | 6,727          |
| Net cash provided by operating activities  | \$ 625,816                 | \$ 890,540                     | \$ 1,516,356   |
| <b>Schedule of non-cash investing activities:</b>  |                            |                                |                |
| Change in fair value of investments  | \$ 11,906                  | \$ -                           | \$ 11,906      |

See accompanying notes to the financial statements.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
DECEMBER 31, 2015**

**Assets:**

|                           |             |
|---------------------------|-------------|
| Cash and cash equivalents | \$ -        |
| Total Assets              | <u>\$ -</u> |

**Liabilities:**

|                   |             |
|-------------------|-------------|
| Due to others     | \$ -        |
| Total Liabilities | <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, 2015

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## 1. GENERAL INFORMATION

### Introduction

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

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

### Conduit Debt Obligations

The Ohio Air Quality Development Authority may at any time issue revenue bonds and notes of the State in such principal amounts as, in the opinion of the Authority, are necessary for the purpose of paying any part of the cost of one or more air quality projects or parts thereof. The Authority may at any time issue renewal notes, issue bonds to pay such notes and, whenever it deems refunding expedient, refund any bonds by the issuance of air quality revenue refunding bonds of the State, whether the bonds to be refunded have or have not matured, and issue bonds partly to refund bonds then outstanding, and partly for any other authorized purpose. The renewal notes, bonds, and air quality revenue refunding bonds are issued under the Authority's name; however, they are not obligations of the Authority or the State of Ohio, but are backed by specific streams of revenue and additional collateralization as deemed necessary at the time of issuance. In addition to conventional financings, pursuant to 3706.04 and in accordance with section 54D(e) of the Internal Revenue Code, 26 U.S.C. 54D(e), the Authority allocates the national qualified energy conservation bond (QECB) limitation to the state and reallocates any portion of an allocation waived by a county or municipality. The unaudited aggregate amount of principal outstanding as of December 31, 2015 was approximately \$2.8 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, 2015

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

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

## **Energy Strategy Development Program**

The Energy Strategy Development Program received financing for various advanced energy technology projects as well as the implementation of energy conservation projects through the sale of revenue bond obligations by the State of Ohio pursuant to ORC Section 166.08. The repayment of these bonds is not included within the Authority's financial statements; these payments are included within the State of Ohio's comprehensive annual financial report.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

The 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, 2015.

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 2015, 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, 2015

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## C. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The focus of enterprise fund financial statements is on major program (fund) level while fiduciary funds are reported by type. For 2015, 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, 2015

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## **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. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Authority, deferred outflows of resources are reported for pension, explained further in Note 8.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow until that time. For the Authority, deferred inflows of resources are reported for pension, explained further in Note 8.

## **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.



# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

## **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 payments of loan principal and service fees will be maintained by the Authority in an escrow account and remitted to the Development Services Agency (DSA) to fund future projects as well as to pay the program's contractual loan service agent. As such, the OAQDA is acting in an administrative function only related to monitoring, tracking and accounting for the individual energy loans issued.

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

| <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.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

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## **J. 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.

## **K. 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, 2015, was \$90,430 and \$86,829, 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 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.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

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## **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 2015, there was no such incentive clauses approved.

## **N. Accrued Wages and Benefits**

Accrued wages consist of wages payable to Authority employees as of December 31, 2015. The accrued wages balance consists of \$22,264 owed to employees for work performed during the fiscal year but which they were not compensated until the subsequent year.

## **O. 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.

## **P. Pensions**

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

## **Q. 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.

## **R. Interfund Activity**

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

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

### 3. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2015, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. GASB Statement 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

Also, in prior years the Authority did not properly account for the employee benefits within the accrual for accrued wages and benefits. As a result, the accrued wages and benefits payable and wages and benefits expense reported in the prior year were understated.

The implementation of the new accounting standards and the correction of the error noted above required beginning net position for the Air Quality Development and Energy Strategy Development activities to be restated as follows:

|  | <u>Air<br/>Quality<br/>Development</u> | <u>Energy<br/>Strategy<br/>Development</u> |
|--|--|--|
| Ending net position reported<br>at December 31, 2014                     | \$ 12,032,073                          | \$ 21,265,443                              |
| Standard Adoption:   |  |  |
| Net pension liability  | (127,515)                              | (54,649)                                   |
| Deferred outflows - contributions made<br>subsequent to measurement date | 25,065                                 | 10,742                                     |
| Correction of error:   |  |  |
| Accrued wages  | <u>(5,359)</u>                         | <u>(2,296)</u>                             |
| Adjusted net position reported<br>at January 1, 2015                     | <u>\$ 11,924,264</u>                   | <u>\$ 21,219,240</u>                       |

Other than employer contributions subsequent to the measurement date, the Authority made no restatement for deferred outflows of resources or deferred inflows of resources as the information needed to generate these restatements was not available.

### 4. DEPOSITS AND INVESTMENTS

#### **Deposits:**

At fiscal year end, the carrying amount of the Authority's deposits was \$16,216,454 and the depository balance was \$16,216,454. The Authority's deposits at year-end consisted of the following:

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

Notes to the Financial Statements

For the Year Ended December 31, 2015

|  |                      |
|--|----------------------|
| Deposits with Treasurer of State of Ohio:    |                      |
| Operating - Payroll Clearing                 | \$ 37,699            |
| Small Business Ombudsman                     | 958,387              |
| Small Business Assistance                    | 3,625,077            |
| Energy Strategy Development                  | 121,800              |
| Advanced Energy R&D Taxable Bonds            | <u>7,705,286</u>     |
| Total on Deposit with Treasurer of State     | \$ 12,448,249        |
| Deposits with Financial Institutions:        |                      |
| Trust - Bank Money Market Funds              | 1,985,088            |
| Checking Account - Loan Repayment Holding    | 1,782,569            |
| Escrow Accounts - Loan Projects              | <u>548</u>           |
| Total on Deposit with Financial Institutions | <u>3,768,205</u>     |
| Total Deposits                               | <u>\$ 16,216,454</u> |

Deposits with the Treasurer of State are not subject to the classification of custodial credit risk. The bank money market funds are not categorized by risk since they are not evidenced by securities that exist in physical or book entry form. Of the \$1,783,117 deposits in checking and escrow accounts; \$250,548 was insured by the Federal Deposit Insurance Corporation and the remaining \$1,532,569 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, 2015, 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                  | \$ 1,444,740        | \$ 799,815                     | \$ 397,885          | \$ 247,040          | 25.24%                       |
| FFCB                  | 799,109             | -                              | 499,100             | 300,009             | 13.96%                       |
| FHLMC                 | 949,828             | -                              | 549,372             | 400,456             | 16.59%                       |
| FHLMC Discount Note   | 184,680             | 184,680                        | -                   | -                   | 3.23%                        |
| FNMA                  | 2,332,529           | -                              | 1,508,919           | 823,610             | 40.75%                       |
| Treasury Money Market | <u>13,141</u>       | <u>13,141</u>                  | <u>-</u>            | <u>-</u>            | <u>0.23%</u>                 |
| Totals                | <u>\$ 5,724,027</u> | <u>\$ 997,636</u>              | <u>\$ 2,955,276</u> | <u>\$ 1,771,115</u> | <u>100.00%</u>               |

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

*Credit Risk:* At December 31, 2015 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.

## 5. ENERGY LOANS RECEIVABLE

As of December 31, 2015, the Authority reports \$5.5 million of advanced energy loans outstanding, which is net of \$8.1 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> |
|---------------------------------------|---------------------------|----------------------|-----------------------------|--------------------------------|---------------------------|
| Evergreen (Ohio Cooperative Solar)    | 2010                      | 1.00%                | \$ 1,530,000                | \$ 529,821                     | 2016                      |
| Quasar Energy Group                   | 2010                      | 2.00%                | 3,045,000                   | -                              | 2017                      |
| Technology Management Inc.            | 2010                      | 2.00%                | 2,537,500                   | 2,537,500                      | 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                   | 177,309                        | 2018                      |
| SoCore Solar Energy                   | 2011                      | 1.50%                | 5,237,400                   | 786,152                        | 2019                      |
| Stark County                          | 2011                      | 3.00%                | 1,500,000                   | 420,059                        | 2021                      |
| Isofoton North America                | 2012                      | 2.00%                | <u>5,000,000</u>            | <u>-</u>                       | 2019                      |
| Gross Total                           |                           |                      | <u>\$ 34,275,680</u>        | 13,610,841                     |                           |
| Less: Allowance for Doubtful Accounts |                           |                      |                             | <u>(8,143,833)</u>             |                           |
| Net Energy Loans Receivable           |                           |                      |                             | <u>\$ 5,467,008</u>            |                           |

Once approved, project loan amounts are deposited into the appropriate escrow accounts awaiting disbursement. During 2015, there were no new projects approved, nor any disbursements for previously approved projects, made out of these escrow accounts (addition to loans outstanding). During the year \$2.1 million of principal repayments (reduction in loans outstanding) were received. Each loan payment includes a loan servicing fee. As loan payments are received by OAQDA, repayment amounts will be deposited into a separate bank account and be subsequently remitted to the DSA in accordance with the requirements of the Advanced Energy Loan Program.

Provisions of the individual loan agreements include forgiveness of a portion of outstanding loan principal should the companies meet certain job creation targets. The amounts of the loan principal to be forgiven are set on a loan to loan basis and range from \$100,000 to \$3.3 million. During 2015 there no loan forgiveness amounts were recorded.

# OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

During 2015, the Attorney General's Office entered into settlement agreements with three separate loans which had previously been declared in default by the Authority and assigned to the Attorney General's Office for collection. As a result of these settlement agreements, receivable amounts for one loan were completely closed out during 2015 after settlement proceeds were collected and the allowance amounts for the other two loans were adjusted based on anticipated settlement proceeds to be received subsequent to the end of the year. In addition, during 2015 the Authority determined another loan receivable met the Authority's policy for establishing an allowance due to excessive deferral of repayments.

At December 31, 2015 \$4,634,580 of energy loans are considered due within one year (\$12,778,413 in gross loans less \$8,143,833 in allowance for doubtful accounts) and \$832,428 are considered due in more than one year (\$832,428 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, 2015, the Authority reported total accrued loan interest receivable in the amount of \$273,277 less an allowance for doubtful accounts of \$223,300.

## 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

|                                    | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|------------------------------------|------------------------------|-------------------|------------------|---------------------------|
| <b><u>Capital Assets:</u></b>      |                              |                   |                  |                           |
| Office equipment                   | \$ 90,430                    | \$ -              | \$ -             | \$ 90,430                 |
| Less accumulated depreciation for: |                              |                   |                  |                           |
| Office equipment                   | <u>(85,363)</u>              | <u>(1,466)</u>    | <u>-</u>         | <u>(86,829)</u>           |
| Total capital assets, net          | <u>\$ 5,067</u>              | <u>\$ (1,466)</u> | <u>\$ -</u>      | <u>\$ 3,601</u>           |

## 7. OPERATING LEASES

The Authority has entered into lease agreements for office space, computers, copier and a postlink system. Leased properties not having the elements of ownership are classified as operating leases and are recorded as expenses when payable. Total operating lease expense for 2015 was \$68,236. The terms of the leases are not anticipated to change significantly in future fiscal years.

## 8. PENSION PLAN

### **Ohio Public Employees Retirement System (OPERS)**

#### **Plan Description and Plan Benefits**

OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Pension Plan, the Combined Plan, and the Member-Directed Plan. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.



## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

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OPERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS's fiduciary net position. That report can be obtained by visiting <https://www.opers.org/about/finance/index.shtml>.

*The Traditional Pension Plan.* The Traditional Pension Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary. The pension benefits are funded by both member and employer contributions, and investment earnings on those contributions.

*The Combined Plan.* The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Pension Plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

*The Member-Directed Plan.* The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Upon retirement or termination, the member may choose a defined contribution retirement distribution, or may elect to use his/her defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Plan benefits, and any benefit increases, are established by legislature pursuant to Chapter 145 of the Ohio Revised Code. The Board of Trustees, pursuant to Chapter 145, has elected to maintain funds to provide health care coverage to eligible Traditional Pension and Combined plan retirees and survivors of members. Health care coverage does not vest and is not required under Chapter 145. As a result, coverage may be reduced or eliminated at the discretion of the Board.

Senate Bill (SB) 343 enacted into law new legislation with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

*Age and Service Defined Benefits.* Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary, and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Members in transition Group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first



## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

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30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. The final average salary represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on an average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Benefits in the Combined Plan consist of both an age and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's final average salary for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions, plus or minus any investment gains or losses on those contributions.

*Defined Contribution Benefits.* Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-Directed Plan and Combined Plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan was discussed above. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the member's contributions, vested employer contributions and investment gains and losses resulting from the member's investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of the entire account balance, net of taxes withheld, or a combination of these options.

Additional information on other benefits available can be found in the OPERS CAFR.

### **Funding Policy**

The OPERS funding policy provides for periodic employee and employer contributions to all three plans at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of OPERS' external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2014. Plan members were required to contribute 10% of covered payroll. The Authority contribution rate was 14% of covered payroll.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

Notes to the Financial Statements

For the Year Ended December 31, 2015

The Authority's contractually required contributions to OPERS for 2015 was \$37,473.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPERS**

The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. For reporting purposes, the Authority combined the amounts for both the Traditional and Combined plans, due to insignificance of the amounts that related to the Combined Plan. The Authority reported a net pension liability of \$178,341 as its proportionate share. The Authority's proportion was 0.001571% for the Traditional Plan and 0.028929% for the Combined Plan. The Authority recognized \$27,923 in pension expense.

The following amounts are reported as deferred outflows and inflows of resources at December 31, 2015:

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>(Inflows) of<br>Resources | Net<br>Deferred<br>Outflows/<br>(Inflows) of<br>Resources |
|--|--------------------------------------|---------------------------------------|---|
| Authority contributions subsequent<br>to measurement date              | \$ 36,000                            | \$ -                                  | \$ 36,000   |
| Net difference between projected<br>and actual investment earnings (1) | 10,790                               | -                                     | 10,790  |
| Differences between expected<br>and actual experience (1)              | -                                    | 6,727                                 | 6,727   |
|  | <u>\$ 46,790</u>                     | <u>\$ 6,727</u>                       | <u>\$ 53,517</u>  |

(1) - Information provided by OPERS

\$36,000 reported as deferred outflows of resources relate to pension resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and deferred inflows related to pension will be recognized in pension expense as follows:

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

Notes to the Financial Statements

For the Year Ended December 31, 2015

|                          | Deferred<br>Outflows | Deferred<br>(Inflows) | Pension<br>Expense |
|--------------------------|----------------------|-----------------------|--------------------|
| Year Ending December 31: |                      |                       |                    |
| 2016                     | \$ 1,848             | \$ (634)              | \$ 1,214           |
| 2017                     | 4,232                | (634)                 | 3,598              |
| 2018                     | 4,710                | (634)                 | 4,076              |
| 2019                     | -                    | (1,095)               | (1,095)            |
| Thereafter               | -                    | (3,730)               | (3,730)            |
|                          | <u>\$ 10,790</u>     | <u>\$ (6,727)</u>     | <u>\$ 4,063</u>    |

**Actuarial Assumptions**

Total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            | <u>Traditional Plan</u>                               | <u>Combined Plan</u>                                 |
|----------------------------|---|--|
| Investment rate of return  | 8.00%   | 8.00%  |
| Wage inflation             | 3.75%   | 3.75%  |
| Projected salary increases | 4.25%-10.05%<br>(includes wage<br>inflation at 3.75%) | 4.25%-8.05%<br>(includes wage<br>inflation at 3.75%) |
| Cost-of-living adjustments | 3.00% Simple  | 3.00% Simple   |

*Source: OPERS 2014 CAFR*

Mortality rates are the RP-2000 mortality table projected 20 years using Projected Scale AA. For males, 105% of the combined health male mortality rates were used. For females, 100% of the combined health female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disable female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

*Long Term Expected Rate of Return:* The allocation of investment assets within the defined benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy and the long term expected arithmetic real rates of return:

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

Notes to the Financial Statements  
For the Year Ended December 31, 2015

| Asset Class            | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return |
|------------------------|-------------------|---|
| Fixed Income           | 23.00%            | 2.31%   |
| Domestic Equities      | 19.90%            | 5.84%   |
| Real Estate            | 10.00%            | 4.25%   |
| Private Equity         | 10.00%            | 9.25%   |
| International Equities | 19.10%            | 7.40%   |
| Other Investments      | <u>18.00%</u>     | <u>4.59%</u>  |
| Total                  | <u>100.00%</u>    | <u>5.28%</u>  |

*Source: OPERS 2014 CAFR*

*Discount Rate:* The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Employer’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:* The following chart represents the Authority’s proportionate share of the net pension liability at the 8% discount rate as well as the sensitivity to a 1% increase and 1% decrease in the current discount rate:

|  | 1% Decrease<br>(7.00%) | Current Discount<br>Rate of 8% | 1% Increase<br>(9.00%) |
|--|------------------------|--------------------------------|------------------------|
| Authority's proportionate share of the net pension liability | \$ 329,211             | \$ 178,341                     | \$ 51,294              |

*Source: OPERS 2014 CAFR multiplied by Authority's proportionate share*

**9. OTHER POST-EMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) –a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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.

## OHIO AIR QUALITY DEVELOPMENT AUTHORITY

Notes to the Financial Statements  
For the Year Ended December 31, 2015

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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 2014 CAFR for details.

The Ohio Revised Code (ORC) permits, but does not require, OPERS to provide OPEB benefits to its eligible recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

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.

### **Funding Policy**

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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2015, the Authority contributed at a rate of 14.00% of earnable salary. 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 2015. 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, 2015, 2014 and 2012 were \$6,246, \$6,210 and \$2,571, respectively, and are equal to 100% of the required contributions for the each year.

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

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

Notes to the Financial Statements

For the Year Ended December 31, 2015

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**10. LONG-TERM OBLIGATIONS**

The change in the Authority's long-term obligations for the year ended December 31, 2015, was as follows:

|                       | <u>Beginning<br/>Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending<br/>Balance</u> |
|-----------------------|------------------------------|-----------------|-----------------|---------------------------|
| Net Pension Liability | <u>\$ 182,164</u>            | <u>\$ -</u>     | <u>\$ 3,823</u> | <u>\$ 178,341</u>         |

**11. INTERFUND ACTIVITY**

At December 31, 2015, the energy strategy development program owed the air quality development activity a total of \$86,193 for its share of the overhead operating expenses for the last six quarters. The reimbursement of these funds is anticipated to occur during calendar year 2016. Also, during the year, the air quality development authority transferred \$182,311 to the energy strategy development program to fund operating expenses which could not be covered by current State funding levels.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST TWO MEASUREMENT YEARS (1), (2)**

|  | <u>2014</u> | <u>2013</u> |
|--|-------------|-------------|
| Authority's Proportion of the Net Pension Liability:   |             |             |
| Traditional Plan   | 0.001571%   | 0.001571%   |
| Combined Plan  | 0.028929%   | 0.028929%   |
| <br>   |             |             |
| Authority's Proportionate Share of the Net Pension Liability (Asset)   | \$ 178,342  | \$ 182,164  |
| <br>   |             |             |
| Authority's Covered - Employee Payroll (3)   | \$ 310,667  | \$ 257,092  |
| <br>   |             |             |
| Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 57.41%      | 70.86%      |
| <br>   |             |             |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability:  |             |             |
| Traditional Plan   | 86.45%      | 86.36%      |
| Combined Plan  | 114.83%     | 104.56%     |

*Source: OPERS information with exception of the covered-employee payroll which was derived from the Authority's financial records.*

- (1) Information presented based on measurement periods ended December 31.
- (2) Information prior to 2013 is not available.
- (3) Covered-employee payroll broken down by plan (Traditional vs. Combined) was not available.



**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST FIVE YEARS (1)**

|  | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        | <u>2012</u>        | <u>2011</u>        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contributions (2)                                 | \$ 37,473          | \$ 37,280          | \$ 33,422          | \$ 22,869          | \$ 26,034          |
| Contributions in Relation to the Contractually<br>Required Contributions | <u>\$ (37,473)</u> | <u>\$ (37,280)</u> | <u>\$ (33,422)</u> | <u>\$ (22,869)</u> | <u>\$ (26,034)</u> |
| Contribution Deficiency (Excess)   | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| Authority Covered-Employee Payroll                                       | \$ 312,275         | \$ 310,667         | \$ 257,092         | \$ 228,690         | \$ 260,340         |
| Contributions as a Percentage of<br>Covered-Employee Payroll             | 12.00%             | 12.00%             | 13.00%             | 10.00%             | 10.00%             |

*Source: Authority's financial records.*

- (1) Represents employer's calendar year. Information prior to 2011 was not practically available. The Authority will continue to present information for years available until a full ten-year trend is compiled.
- (2) Information broken down by plan type (Traditional vs. Combined) was not available.

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**SUPPLEMENTARY INFORMATION**

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY  
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|                           | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Deletions</u>    | <u>Ending<br/>Balance</u> |
|---------------------------|------------------------------|---------------------|---------------------|---------------------------|
| <b>Assets:</b>            |                              |                     |                     |                           |
| Cash and cash equivalents | \$ -                         | \$ 2,126,834        | \$ 2,126,834        | \$ -                      |
| Total Assets              | <u>\$ -</u>                  | <u>\$ 2,126,834</u> | <u>\$ 2,126,834</u> | <u>\$ -</u>               |
| <b>Liabilities:</b>       |                              |                     |                     |                           |
| Due to others             | \$ -                         | \$ 2,126,834        | \$ 2,126,834        | \$ -                      |
| Total Liabilities         | <u>\$ -</u>                  | <u>\$ 2,126,834</u> | <u>\$ 2,126,834</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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 9, 2016.

### ***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, that we consider a material weakness. We consider finding 2015-001 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 November 9, 2016.

***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

November 9, 2016

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2015

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

FINDING NUMBER 2015-001

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. 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 its annual financial statements. The Authority management remains responsible for the presentation and accuracy of the financial statements and reviewed the compilation results prior to providing the financial statements for audit. However, the Authority's system of financial reporting and review failed to prevent or detect the following misstatements:

- The Statement of Cash Flows for the Energy Strategy Development fund understated the "Decrease in energy loans receivable" amount by \$1,268,750 (recorded as \$6,851,363 but should have been \$8,120,113) and overstated the "Decrease in loan interest receivable" amount by \$1,268,750 (recorded as \$1,270,396 but should have been \$1,646). This occurred within the reconciliation of operating income to net cash provided by operating activities section of the Statement.
- The Statement of Net Position for the Air Quality Development fund understated the "Current Assets: Investments" amount by \$500,010 (recorded as \$497,626 but should have been \$997,636) and overstated the "Noncurrent Assets: Investments" amount by \$500,010 (recorded as \$5,226,401 but should have been \$4,726,391). In addition, Footnote 4, "Deposits and Investments", misclassified the Authority's exposure to interest rate risk on FHLB (Federal Home Loan Bank) investments by reporting \$500,010 in the "2 to 3 Years" maturity column instead of in the "1 Year or Less" column.

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 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. If the amounts involved are material, the risk exists that financial statements could be materially misstated without detection.

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.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015**

**FINDING NUMBER 2015-001 (Continued)**

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.
- Obtaining and reviewing the support documents used by the consultant in order to ensure accuracy and completeness of the financial statements.

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

**Officials' Response**

Ohio Air Quality Development Authority  
Comparison of 2014 to 2015 audit comments

In 2014, the Authority received a material weakness (Finding 2014-001) which was labeled "Financial Reporting Review Process". The second paragraph of that finding cited "The Authority did not 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 AOS Finding for 2014 goes on to recommend the following:

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 the finalization of 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 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, 2015

The Authority believes that it implemented the elements of the Finding issued in the 2014 audit as it implemented a review process by the fiscal officer prior to providing the financial statements for audit in 2015. There were no items noted in the 2015 audit which should have been included within the financial statements, but were not.

Instead, as a result of the Authority's review process, a loan receivable was identified that was subsequently determined to meet the criteria for a doubtful account and therefore required to have an allowance recorded with this loan receivable as of December 31, 2015. When that allowance was processed by the contract accountant, it was subsequently recorded as "decrease in loan interest receivable" on loans instead of "decrease in energy loans receivable". This was simply an oversight in the process and had no overall impact to the statement of cash flows other than moving an amount from one line item in the statement to another.

So while the Authority addressed the issue that was contained within the 2014 audit finding as written (all 2015 financial amounts were identified and reported within the financial statements) for the 2015 financial statements, the AOS has taken the position that since there were audit adjustments within the 2015 financial statements the audit comment has not been fully addressed. Due to the overall "general" manner in which the 2014 audit comment was written, any issue noted during the audit could lead one to determine the audit comment was not fully addressed by the Authority.

The Authority takes great pride in reporting its financial activity within the financial statements and feels the issues noted in the 2014 audit are of a significantly different nature than the issues noted during the 2015 audit. The Authority will continue to modify its financial reporting and review process for subsequent periods, however, as the process is ever changing, and involves human processes and professional judgment. Therefore the inherent risk that errors and mistakes could occur cannot be totally eliminated.

While the Authority does not disagree with the changes noted in the 2015 audit, it does disagree that it did not implement appropriate procedures to address the issues noted in 2014 as evidenced by the fact that the underlying issues noted in the prior year audit were not noted in the 2015 audit.

#### **AOS Conclusion**

The finding will remain as stated above and the status of prior audit findings has been determined partially corrected.

**OHIO AIR QUALITY DEVELOPMENT AUTHORITY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015**

| <b>Finding Number</b> | <b>Finding Summary</b>   | <b>Status</b>   | <b>Additional Information</b>   |
|-----------------------|--|---|---|
| 2014-001              | <p><b>MATERIAL WEAKNESS</b><br/>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 due to staff transition and previous bond counsel not providing the information in timely manner.</p> | <p>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.</p> <p>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. Finding for 2014 audit is fully corrected.</p> <p><u>Below are the comments from OAQDA compiler Larry Weeks at Clark Schaefer Hackett regarding the 2015 audit</u></p> <p>A material weakness was noted for the current audit due to certain "reclassification" of amounts from one line item to another, which were deemed to be material by the auditors. As such, while the underlying issue surrounding the prior year audit finding were fully corrected, preparing financial statements that are free from issues deemed material by the auditors is deemed partially corrected.</p> | <p>OAQDA hired a new fiscal officer in April 2016 on a temporary basis and full time in August 2016. The new fiscal officer will be responsible for assisting with the financial statement review process of the GAAP financial statements.</p> <p><u>Below are the comments from OAQDA compiler Larry Weeks at Clark Schaefer Hackett regarding the 2015 audit</u></p> <p>The Authority believes the issues surrounding the 2014 audit finding and those noted in the 2015 audit finding to be completely different. In 2014, amounts that should have been identified and included in the financial statements were not. That was immediately corrected. The 2015 audit finding addresses certain "line-item reclassifications" of amounts within the financial statement. While the Authority agreed with reclassifications, it is important to note the financial statements and disclosures were complete and contained all required financial activity for calendar year 2015 and the overall net position of the Authority's activities were not changed by the reclassifications noted in the 2015 audit finding.</p> |



# 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 13, 2016**