



Lucas County Economic Development Corporation

Financial Statements

Years Ended December 31, 2015 and 2014

With Independent Auditors' Report



Dave Yost • Auditor of State

Board of Directors
Lucas County Economic Development Corporation
Two Maritime Plaza, Ground Floor
Toledo, Ohio 43604

We have reviewed the *Independent Auditor's Report* of the Lucas County Economic Development Corporation, Lucas County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2014 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lucas County Economic Development Corporation is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 7, 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lucas County Economic Development Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Lucas County Economic Development Corporation ("LCEDC") (a not-for-profit organization), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Sstatements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lucas County Economic Development Corporation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016, on our consideration of Lucas County Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Lucas County Economic Development Corporation's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Toledo, Ohio
June 29, 2016

Lucas County Economic Development Corporation

Consolidated Statements of Financial Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ 192,814	\$ 22,172
Accounts receivable:		
Grants	-	26,250
Other	-	2,587
	<u>-</u>	<u>28,837</u>
Property and equipment:		
Equipment and software	14,971	14,971
Furniture and fixtures	19,547	19,547
	<u>34,518</u>	<u>34,518</u>
Less accumulated depreciation	<u>26,672</u>	<u>22,862</u>
	7,846	11,656
Other assets:		
Investment in limited liability companies	4,273,558	25,447
Investment property held for sale	1,392,413	1,392,413
Land held for sale	450	450
Note receivable	-	12,875
	<u>5,666,421</u>	<u>1,431,185</u>
Total assets	<u>\$ 5,867,081</u>	<u>\$ 1,493,850</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 9,007	\$ 657
Funds held on behalf of Lucas County	111,207	-
Accrued liabilities	65,185	14,308
Long-term debt	4,251,201	-
Total liabilities	<u>4,436,600</u>	<u>14,965</u>
Net assets - unrestricted	<u>1,430,481</u>	<u>1,478,885</u>
Total liabilities and net assets	<u>\$ 5,867,081</u>	<u>\$ 1,493,850</u>

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Activities

Years Ended December 31, 2015 and 2014

	2015	2014
Revenues:		
Contributions from Lucas County	\$ 1,282,811	\$ 1,666,125
Grants:		
Pass-through	-	31,500
Operating	-	41,232
	-	72,732
Interest income	185	669
Loss on disposal of property	-	(119)
Equity in net loss on investment in limited liability company	-	(17,668)
	1,282,996	1,721,739
Expenses:		
Grants	1,202,872	-
Interest	53,077	-
Professional fees	38,170	29,529
Real estate taxes	26,428	743
Depreciation	3,810	4,128
Bad debts	2,587	7,152
Miscellaneous	1,113	920
Utilities	884	-
Dues and subscriptions	674	1,915
Insurance:		
Professional liability	420	450
Group	-	62,722
Outside services	404	7,631
Meals and entertainment	399	2,433
Payroll taxes and workers' compensation	281	21,201
Telephone and internet	250	8,319
Office supplies	31	3,007
Pass-through grants	-	31,500
Salaries and wages	-	252,848
Rent	-	47,077
Travel	-	16,489
Postage, shipping and delivery	-	223
Total expenses	1,331,400	498,287
Change in net assets	(48,404)	1,223,452
Net assets at beginning of year	1,478,885	255,433
Net assets at end of year	\$ 1,430,481	\$ 1,478,885

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (48,404)	\$ 1,223,452
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,810	4,128
Loss on investment in limited liability company	-	17,668
Loss on disposal of property	-	119
Contribution of property from Lucas County	(1,282,811)	-
Changes in assets and liabilities:		
Restricted cash	-	10,000
Accounts receivable	28,837	(7,163)
Prepaid expenses	-	8,384
Accounts payable	8,350	(134)
Funds held on behalf of Lucas County	111,207	-
Accrued liabilities	50,877	528
Deferred revenue	-	(10,000)
Net cash provided by (used in) operating activities	(1,128,134)	1,246,982
Cash flows from investing activities:		
Purchase of investment in limited liability companies	(4,251,201)	-
Proceeds from sale of property	1,282,811	-
Payments received on note receivable	12,875	11,460
Distributions received from investment in limited liability company	3,090	21,530
Purchase of investment property	-	(1,392,413)
Capital expenditures	-	(7,186)
Net cash used in investing activities	(2,952,425)	(1,366,609)
Cash flows from financing activities:		
Proceeds from long-term debt	4,251,201	-
Net cash provided by financing activities	4,251,201	-
Net increase (decrease) in cash	170,642	(119,627)
Cash at beginning of year	22,172	141,799
Cash at end of year	\$ 192,814	\$ 22,172

See accompanying notes.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. Summary of Significant Accounting Policies

Business Activity

Lucas County Economic Development Corporation (“LCEDC”) was organized for the purpose of promoting, advancing and encouraging the industrial, economic, commercial and civic development of Lucas County, Ohio (“Lucas County”) and the surrounding area. Funding is provided by Lucas County. In 2014, funding was also provided by the Regional Growth Partnership (through the JobsOhio program). Upon dissolution or liquidation of the Corporation, any remaining net assets of the Corporation shall be distributed as determined by the Board of Directors with the approval of the Court of Common Pleas of Lucas County, Ohio, for charitable purposes in the Lucas County area.

LCEDC is the sole member of Hensville Improvements Manager, Inc. (“Manager”), a wholly-owned for-profit subsidiary, which was formed to manage and fund certain entities involved in a downtown Toledo redevelopment project known as “Hensville” (see Note 3).

Basis of Presentation

The consolidated financial statements include the accounts of LCEDC and Manager (collectively, known as the “Corporation”). All significant intercompany balances and transactions have been eliminated.

The Corporation has established Northwest Ohio Improvement Fund, LLC, a wholly-owned for-profit subsidiary engaged in providing financing to companies and real estate development projects in Northwest Ohio. The Toledo-Lucas County Port Authority is the primary beneficiary of the activities conducted by this entity. In addition, the Corporation has also established Lucas County Commercial Redevelopment, LLC, a wholly-owned not-for-profit subsidiary engaged in land redevelopment. There were no financial activities related to these entities during 2015 and 2014.

Recently Issued Accounting Standards

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-01, *Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities*. This new accounting standard requires that equity investments be measured at fair value with changes in fair value recognized in net income and eliminate certain financial statement disclosures for investments measured at amortized cost. ASU 2016-01 is effective for annual financial statements for fiscal years beginning after December 15, 2017; however, early adoption is permitted. The Corporation has not adopted this accounting standard and has not determined the effect on its financial statements.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. Summary of Significant Accounting Policies - continued

Net Asset Classifications

Resources for various purposes are classified for accounting and financial reporting purposes into net asset categories established according to their nature and purpose as follows:

- Unrestricted net assets – Unrestricted net assets represent funds which are fully available, at the discretion of management and the Board of Directors, for the Corporation to utilize in any of its programs or supporting services.
- Temporarily restricted net assets – Temporarily restricted net assets are comprised of funds which are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Corporation. The Corporation does not have any temporarily restricted net assets at December 31, 2015 and 2014.
- Permanently restricted net assets – Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity but permit the Corporation to expend all or part of the income derived from the donated assets. The Corporation does not have any permanently restricted net assets at December 31, 2015 and 2014.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated by the straight line method over the estimated useful lives of the equipment ranging from 3 to 7 years. Depreciation expense for the years ended December 31, 2015 and 2014 is \$3,810 and \$4,128, respectively.

Investments

The Corporation has an investment in a limited liability company which is recorded using the equity method of accounting. The Corporation has two investments in two Hensville-related entities (see Note 3) which are record using the cost method of accounting.

Notes Receivable

The note receivable is stated at its unpaid principal balance. The Corporation's practice is to charge off any portion of the receivable when and if determined by management to be uncollectible.

Concentration of Revenue

Substantially all 2015 and 2014 revenue to the Corporation is provided by Lucas County. A significant reduction in the level of support could have a significant effect on the Corporation's programs and/or financial viability.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. Summary of Significant Accounting Policies – continued

Revenue Recognition

Unconditional promises to give are recognized as revenue in the period promised and as increases in assets or decreases of liabilities depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There are no conditional promises to give at December 31, 2015 and 2014.

Grant revenue is recognized when qualifying expenses are incurred and submitted for payment. Any grant revenue received prior to year end which is unspent is recorded as deferred revenue. Periodic audits of some grants may be required and certain costs may be deemed inappropriate by the grantor which could result in the refund of grant monies to the granting agencies. Management believes that any required refunds will not be significant to the accompanying financial statements and no provision has been made in the accompanying financial statements for the refund of any grant monies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

Income Taxes

LCEDC was incorporated under Chapter 1724 of the Ohio Revised Code as a community improvement corporation, which is a non-profit organization. The Corporation received approval from the Internal Revenue Service to be classified as a public charity and is thereby exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Manager is organized as a for-profit corporation for federal income tax purposes.

The Corporation has evaluated the guidelines related to uncertain tax positions and has concluded that the Corporation has no significant financial statement exposure to uncertain tax positions at December 31, 2015 and 2014. The Corporation's policy is to record any interest and penalties as a component of income tax expense. The Corporation's federal tax returns for the years subsequent to 2011 remain subject to examination by the Internal Revenue Service.

Functional Expenses

The Corporation has program expenses that relate to providing certain services under various grants. Certain costs not directly attributable to specific program services have been allocated between program and management and general expenses. The functional classification of expenses for the year ended December 31, 2015 and 2014 is:

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. Summary of Significant Accounting Policies – continued

Functional Expenses - continued

	<u>2015</u>	<u>2014</u>
Program	\$ 1,207,012	\$ 261,736
Management and general	<u>124,388</u>	<u>236,551</u>
	<u>\$ 1,331,400</u>	<u>\$ 498,287</u>

Subsequent Events

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2015 financial statements through the date of the report which is the date the financial statements were available to be issued.

2. Investment Property

In 2014, the Corporation received a contribution from Lucas County to fund the purchase of a downtown Toledo building held for investment. In 2015, the Corporation received property from Lucas County which was subsequently sold and has been reflected as a contribution in the accompanying financial statements.

3. Investment in Limited Liability Companies

The Corporation has invested \$125,000 in Rocket Ventures Fund, LLC, a development fund administered through the Regional Growth Partnership of Northwest Ohio. Based upon a memorandum of understanding with Lucas County, any positive return on the investment will be remitted to Lucas County.

Through Manager, the Corporation is assisting in the financing and administration of the Hensville new market and state tax credit real estate development project. Hensville consists of the redevelopment and rehabilitation of 77,000 square feet of restaurant/event, office and retail space in three historical buildings adjacent to the Toledo Mud Hens Ballpark which began in April 2015.

As a part of the financing, Manager owns a non-controlling interest in Hensville Improvements, LLC (“Improvements”), the owner of Hensville, and a 1% managing-member interest in Hensville Master Tenant, LLC (“Master Tenant”), who will lease the Hensville space and make certain loan and equity investments in Improvements. In April 2015, Manager made initial investments of \$2,193,778 in Improvements and \$9,829 in Master Tenant which was financed with borrowings under long-term debt (see Note 6).

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

3. Investment in Limited Liability Companies - continued

Investments at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Hensville Improvements, LLC	\$ 4,241,372	\$ -
Rocket Ventures Fund, LLC, 1.7% interest	22,357	25,447
Hensville Master Tenant, LLC, 1% interest	<u>9,829</u>	<u>-</u>
Total investments	<u>\$ 4,273,558</u>	<u>\$ 25,447</u>

4. Note Receivable

At December 31, 2014, the Corporation had a seven year \$12,875 note receivable outstanding which bears interest at 3 1/2%. The note was secured by a mortgage agreement on certain real property and certain guarantees. This note receivable was fully collected in 2015.

5. Accrued Liabilities

Accrued liabilities at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Interest	\$ 53,077	\$ -
Real estate taxes	<u>12,108</u>	<u>14,308</u>
	<u>\$ 65,185</u>	<u>\$ 14,308</u>

6. Long-Term Debt

Under an \$11,000,000 Loan Agreement and Line of Credit Promissory Note ("Note") with the Toledo Mud Hens Baseball Club, Inc. ("Mud Hens"), the Manager is borrowings monies to fund certain equity investments in Improvements, and Master Tenant. These funds are expected to be used to (a) satisfy the Manager's guarantee of the design-build contract for Hensville; (b) permit Improvements to complete Hensville; (c) satisfy the Manager's obligations under a Reimbursement Agreement; (d) bridge the time between the construction and completion of Hensville and the receipt of all Federal historic and Ohio rehabilitation tax credits by Improvements; and (e) all legal, accounting, and professional fees and such other expenses as may reasonably be incurred by the Manager.

At December 31, 2015, the Mud Hens advanced \$4,251,201 to Manager as part of Hensville. Interest on the Note accrues at 3.25% and is due quarterly. Interest is only paid out of 99% of available cash flow as defined in the Note. Principal payments begin in June 2017 and are limited to 99% of available cash flow less interest costs.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

7. Lease Commitments

Rent expense under operating lease agreements for use of facilities totaled \$47,077 in 2014. This lease agreement expired in 2014 and was not renewed.

8. Reorganization

In August 2014, operations of the Corporation were absorbed into the operations of Lucas County whereby all employees became employees of Lucas County. The Corporation receives certain administrative services from the County at no cost.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Lucas County Economic Development Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lucas County Economic Development Corporation ("LCEDC") (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LCEDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LCEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of LCEDC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether LCEDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LCEDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LCEDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Toledo, Ohio
June 29, 2016



Dave Yost • Auditor of State

LUCAS COUNTY ECONOMIC DEVELOPMENT CORPORATION

LUCAS 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
SEPTEMBER 20, 2016**