

**PIQUA IMPROVEMENT CORPORATION**  
(a not-for-profit corporation)  
Piqua, Ohio

**Audited Consolidated Financial Statements**  
**December 31, 2007**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Piqua Improvement Corporation  
201 West Water Street  
Piqua, Ohio 45356

We have reviewed the *Independent Auditor's Report* of the Piqua Improvement Corporation, Miami County, prepared by Ellen S. Fodge, CPA, for the audit period January 1, 2007 through December 31, 2007. 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 Piqua Improvement Corporation is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 7, 2009

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*Ellen S. Fodge, CPA*  
*356 Claranna Ave.*  
*Dayton, OH 45419*  
*(937) 299-3816*

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Ms. Cynthia A. Holtzapple, Treasurer  
Piqua Improvement Corporation  
Piqua, Ohio

I have audited the consolidated statement of financial position of the Piqua Improvement Corporation, (a non-profit Corporation) and subsidiaries as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the City of Piqua Downtown Redevelopment Project, L.P. (the "Partnership"), a majority-owned subsidiary, which statements reflect total assets and revenues constituting 90 percent and 100 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Partnership, is based solely on the report of the other auditors. I audited the financial statements of the Ft. Piqua Redevelopment Corporation, a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 10 percent and 0 percent, respectively, of the related consolidated totals.

I conducted my audit 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit and the report of the other auditors, provide a reasonable basis for my opinion.

In my opinion, based on my audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Piqua Improvement Corporation as of December 31, 2007 and the changes in its net assets, and its cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 15, 2008, on my consideration of the Piqua Improvement Corporation's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report describes the scope of my testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. It is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

A handwritten signature in black ink, appearing to read "Ellen S. Fodge". The signature is fluid and cursive, with a prominent loop at the end.

Ellen S. Fodge, CPA  
December 15, 2008

**PIQUA IMPROVEMENT CORPORATION**  
**Consolidated Statement of Financial Position**  
December 31, 2007

**ASSETS**

**Current assets:**

Cash	\$10,460,844
Account receivable	285
Prepaid insurance - directors' liability	315
Total current assets	<u>10,461,444</u>

**Fixed assets:**

Land and building acquisition	285,000
Construction in progress	8,212,755
Total fixed assets	<u>8,497,755</u>

<b>TOTAL ASSETS</b>	<b><u><u>\$18,959,199</u></u></b>
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**Liabilities and net assets:**

**Current liabilities:**

Accounts payable and accrued expenses	\$24,061
Accrued interest payable	3,595
Construction costs payable	447,034
Total current liabilities	<u>474,690</u>

**Long-term liabilities**

Mortgage payable	14,380,846
Total long-term liabilities	<u>14,380,846</u>
Total liabilities	14,855,536

Minority interest in limited partnership	2,015,850
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Net assets - unrestricted	4,944
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Net assets - temporarily restricted, equity interests in subsidiaries	2,082,869
Total net assets and minority interest	<u>4,103,663</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$18,959,199</u></u></b>
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**PIQUA IMPROVEMENT CORPORATION**  
**Consolidated Statement of Activities**  
For the year ended December 31, 2007

**REVENUES AND SUPPORT:**

Interest income	\$248,115
Total revenues and support	<u>248,115</u>

**EXPENSES:**

Asset management fee	85,000
Taxes on corporation	15,152
Professional fees	9,209
Insurance, directors and officers	397
Miscellaneous	248
Meetings	154
Advertising and marketing	70
Office supplies	36
Total expenses	<u>110,266</u>

Change in net assets 137,849

Net assets, beginning of year	567,181
Contribution from majority interest	1,733,303
Contribution from minority interest	<u>1,665,330</u>

Net assets, end of year \$4,103,663



**PIQUA IMPROVEMENT CORPORATION**  
**Consolidated Statement of Cash Flows**  
For the Year Ended December 31, 2007

<b>Cash flows provided by operating activities:</b>	
Change in net assets	\$137,849
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in assets:	
Accounts receivable	(285)
Insurance receivable	917
Prepaid expenses	63
Accounts payable and accrued expenses	13,278
Accrued interest payable	3,595
Net cash provided by operating activities	<u>155,417</u>
<b>Cash flows provided by investment activities:</b>	
Cash from partners	3,398,533
Construction in progress	<u>(6,609,791)</u>
Net cash used by investment activities	<u>(3,211,258)</u>
<b>Cash flows provided by financing activities</b>	
Mortgage payable	4,380,846
Demand note payable	1,733,303
Investment of proceeds of demand note payable	(1,733,303)
Construction costs payable	447,034
Net cash provided by financing activities	<u>4,827,880</u>
Net increase in cash	1,772,039
Cash, beginning of the year	<u>8,688,805</u>
Cash, end of the year	<u><u>\$10,460,844</u></u>

See accountant's audit report and accompanying notes.

**Piqua Improvement Corporation**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS – The Piqua Improvement Corporation is incorporated as a not-for-profit corporation under the laws of the State of Ohio for the purpose of furthering economic development in the City of Piqua. Its mission is to promote and encourage economic and civic welfare for the purpose of advancing the quality of life of the citizens of Piqua, Ohio. This will be accomplished by attracting new and retaining/expanding existing businesses, working through a private/public cooperative, addressing quality of life issues within the community, and maintaining consistent communication with its stakeholders.

The Piqua Improvement Corporation owns 100% of the assets and capital stock of the Ft. Piqua Redevelopment Corporation which in turn owns 51% of the assets and equity of the City of Piqua Downtown Redevelopment Project, L.P. (the Partnership). The Partnership represents 90% of the assets and net assets/equity on these consolidated financial statements.

The City of Piqua Downtown Redevelopment Project, L.P. was formed as a limited partnership under the laws of the State of Ohio on January 14, 2005. The Partnership was formed for the purpose of rehabilitating and operating the Old Fort Piqua Hotel (the Property) located in Piqua, Ohio. The Partnership was also formed to qualify for Historic Tax Credits pursuant to Section 47 of the Internal Revenue Code of 1986, as amended, and to pass future historic tax credits through to Fort Piqua Hotel Master Tenant, LLC (the Master Tenant) under a Master Lease, and qualify as a Qualified Active Low-Income Community Business in accordance with the terms under the New Markets Tax Credit program pursuant to Section 45D of the Internal Revenue Code. The general partner of the partnership is Fort Piqua Redevelopment Corporation and the limited partner is the Master Tenant. As of December 31, 2007, the Property has not been placed in service.

The partners' interest in the partnership are as follows:

Fort Piqua Redevelopment Corporation (wholly-owned by the Piqua Improvement Corporation)	51%
Fort Piqua Hotel Master Tenant, LLC	<u>49%</u>
	100%

The Property is a certified historic structure that is eligible for Historic Tax Credits for qualifying rehabilitation expenditures pursuant to Section 47 of the Internal Revenue Code.

**BASIS OF ACCOUNTING** - The financial statements are prepared on the accrual basis of accounting. The audit prepared by the other auditors of the Partnership was prepared on the income tax basis of accounting. A review of the other auditors' work papers determined that there was no material difference between their income tax basis presentation of the financial statements of the Partnership and a presentation using generally accepted accounting principles of the USA.

**BASIS OF PRESENTATION** – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Piqua Improvement Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Those assets and net assets representing the Partnership and Ft. Piqua Redevelopment Corporation have been shown as temporarily restricted net assets on the Piqua Improvement Corporation Statement of Financial Position.

**USE OF ESTIMATES** – The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REVENUES** – The Piqua Improvement Corporation is funded primarily by pledges from local businesses and contributions from the City of Piqua. Its subsidiaries have no funding other than that provided by bank interest on their assets.

**FUNCTIONAL ALLOCATION OF EXPENSES** – For the Piqua Improvement Corporation, the costs of providing the various programs have been summarized on a functional basis in the financial statements. Where identifiable, costs are charged directly to the program for which they are incurred. Costs that benefit more than one program are allocated among those programs based on estimates made by management. Hotel expenses, advertising, marketing and printing are directly charged amounts.

**INCOME TAXES** – The Piqua Improvement Corporation is exempt from federal income tax under Section 501 c (6) of the Internal Revenue Code, and does not currently conduct any activities, which would result in the imposition of unrelated business income tax. No provision for income taxes has been recorded for the Partnership in the accompanying financial statements since any liability and/or benefit for income taxes flows to the partners of the partnership and is their obligation and/or benefit. For income tax purposes the Partnership reports on a calendar year basis.

The Ft. Piqua Redevelopment Corporation has accrued for income taxes on its 51% of pass-through income from the Partnership in the amount of \$15,152.

## NOTE 2 – PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment is stated at cost. Major expenditures and those which substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are charged to expense when incurred. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gains or losses are included in revenue. Donated property is capitalized at a value nearest to estimated fair value at date of receipt. There was no depreciation expense in 2007 since the hotel was still under construction.

## NOTE 3 - FT. PIQUA REDEVELOPMENT CORPORATION

As described in Note 1, the Ft. Piqua Redevelopment Corporation is 100% owned by the Piqua Improvement Corporation. There were no revenues for 2007 and its expenses were exclusively a tax accrual of \$15,152 for expected income tax due on its pass-through income from the Partnership.

During 2007, the Ft. Piqua Redevelopment Corporation borrowed \$1,733,303 on a demand note (see Note 4) from the City of Piqua and invested the proceeds in the Partnership. The assets, liabilities, revenues and expenses of the Ft. Piqua Redevelopment Corporation were subjected to audit tests.

## NOTE 4 –MORTGAGE PAYABLE

On December 11, 2006, the Partnership executed a mortgage payable with Consortium America VII, LLC (the Lender) in the original amount of \$14,380,846. The note is secured by a mortgage and a security agreement. The note bears interest at a rate of 0.5% per annum. Semiannual payments of interest only are due on June 12<sup>th</sup> and December 12<sup>th</sup> of each year through maturity on December 10, 2036, at which time all unpaid principal and interest shall be due. As of December 31, 2007, accrued interest payable was \$3,595.

On October 16, 2007, the Fort Piqua Redevelopment Corporation executed a demand note with the City of Piqua for proceeds of \$1,733,303 which it contributed to the Partnership in 2007. The note bears an interest rate of 3.0% per annum which would be due upon demand of the principal.

## NOTE 5 – MASTER LEASE

On December 11, 2006, the Partnership entered into a lease agreement with the limited partner to lease its entire rental property. As of December 31, 2007, the Property was still under construction and had not yet commenced operations.

#### NOTE 6- CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash accounts with one bank. Cash balances are insured by the Federal Deposits Insurance Corporation (FDIC) up to \$100,000 at the bank. On December 31, 2007, \$10,356,500 was held in excess of FDIC limits.

#### NOTE 7 – RELATED PARTY TRANSACTIONS

In accordance with the Partnership operating agreement, the Lender earns an annual asset management fee of \$85,000 for services relating to the servicing of the mortgage loan to the partnership. For the year ended December 31, 2007, such fees charged to operations were \$85,000.

The Executive Director of the Piqua Improvement Corporation is the Economic Development Director and full-time employee of the City of Piqua. The Corporation's Treasurer is the Finance Director for the City of Piqua. A value for the contributions of their time has not been recorded since it has been determined that they devote an immaterial number of hours to the Piqua Improvement Corporation. During 2006, the Piqua Improvement Corporation changed its financial control structure to include more accounting and finance staff from the City of Piqua in order to provide greater separation of duties and improved supervision.

*Ellen S. Fodge, CPA*  
356 Claranna Ave.  
Dayton, OH 45419  
(937) 299-3816

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

The Board of Directors and Ms. Cynthia A. Holtzapple, Treasurer  
Piqua Improvement Corporation  
Piqua, Ohio

I have audited the consolidated financial statements of the Piqua Improvement Corporation (the Corporation) as of the year ended December 31, 2007 and have issued my report thereon dated December 15, 2008. I conducted my audit 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. I did not audit the financial statements of the City of Piqua Downtown Redevelopment Project, L.P. (the Partnership) which statements reflect total assets and revenues constituting 91 percent and 100 percent respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amount is included for the Partnership, is based solely on the report of the other auditors. I audited the statements of the Ft. Piqua Redevelopment Corporation which statements reflect total assets and revenues constituting 10 percent and 0 percent respectively, of the related consolidated totals.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Corporation's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Piqua Improvement Corporation's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. My scope of testing internal controls included the following:

1. I made inquiries of the following City employees; the organization's Treasurer (City Finance Director), an accountant for the City of Piqua who records entries for transactions between the City government and the Piqua Improvement Corporation, the City employee who records the organization's transactions in an accounting system, another City employee who writes checks to pay Piqua Improvement Corporation expenses and who receives any contributions that may arrive. I asked about physical controls over information and records, inquired about possible management pressure for certain results, inquired about individuals' knowledge of the existence of fraud and asked similar questions of the individuals on separate occasions to determine if answers were consistent.
2. I verified that evidence of deposits matched the bank account statements for every deposit
3. I verified the following for every check written:
  - checks written in the general ledger matched the amounts in the facsimile copies, there were two authorized signatories on checks
  - check payees matched the invoices in the Organization's records and were valid payees
4. I verified that bank reconciliations are performed and reviewed by more than one person. I tested this by performing a bank reconciliation as of 12/31/06 and comparing it to the organization's reconciliation.
5. I verified that the Organization no longer has its name on the deed of the hotel and that the transfer of the hotel was properly authorized by the Board of Directors by reading the minutes.
6. I considered how someone could commit a fraud within the organization and tested that possibility by verifying the internal controls in place.

I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of the Corporation's Board of Directors, management, and others within the organization and is not intended for anyone other than these specified parties.



Ellen S. Fodge, CPA  
December 15, 2008



**THE PIQUA IMPROVEMENT CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

A. SUMMARY OF AUDITOR'S RESULTS:

The auditor's report expresses an unqualified opinion on the financial statements of the Piqua Improvement Corporation (the Corporation.) No reportable findings.





**Mary Taylor, CPA**  
Auditor of State

**PIQUA IMPROVEMENT CORPORATION**

**MIAMI 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  
MAY 7, 2009**