

**LUCAS COUNTY ECONOMIC
DEVELOPMENT CORPORATION**

Consolidated Financial Statements and
Supplemental Information

Years Ended December 31, 2019 and 2018

With Independent Auditors' Report



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Board of Directors
Lucas County Economic Development Corporation
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We have reviewed the *Independent Auditors' Report* of the Lucas County Economic Development Corporation, Lucas County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2019 through December 31, 2019. 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 black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

June 1, 2020

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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, 2019 and 2018, 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 Statements

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.

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 consolidated financial position of Lucas County Economic Development Corporation as of December 31, 2019 and 2018, 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.

Subsequent Event

As discussed in Note 1 to the financial statements, the financial impact of COVID-19 and the related impact on business operations could impact LCEDC in future years. We did not modify our opinion regarding this matter.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020, 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 solely 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 the effectiveness of the Lucas County Economic Development Corporation's 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
May 8, 2020

Lucas County Economic Development Corporation

Consolidated Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets:		
Cash	\$ 1,297,535	\$ 1,457,858
Notes and accounts receivable:		
Notes	151,252	48,371
Interest	5,126	1,215
	<u>156,378</u>	<u>49,586</u>
Total current assets	1,453,913	1,507,444
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	34,518	34,159
	<u>-</u>	<u>359</u>
Other assets:		
Investment in limited liability companies	8,078,516	7,322,563
Notes receivable	3,138,222	2,410,941
Deferred project costs	1,755,966	271,739
Investment properties held for sale	1,462,133	1,462,133
	<u>14,434,837</u>	<u>11,467,376</u>
Total assets	<u>\$ 15,888,750</u>	<u>\$ 12,975,179</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 346,019	\$ 55,105
Accrued liabilities	621,770	451,123
Total liabilities	<u>967,789</u>	<u>506,228</u>
Long-term debt	5,967,847	5,281,251
Net assets without donor restrictions:		
Controlling interests	8,004,543	6,248,510
Noncontrolling interests	948,571	939,190
Total net assets	<u>8,953,114</u>	<u>7,187,700</u>
Total liabilities and net assets	<u>\$ 15,888,750</u>	<u>\$ 12,975,179</u>

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Activities

Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Contributions from Lucas County	\$ 3,185,164	\$ 400,000
Gain (loss) related to investment in limited liability companies	69,357	(118,363)
Interest income	85,000	85,406
	3,339,521	367,043
Expenses:		
Project expenses	688,380	-
Professional fees	472,860	186,827
Interest	200,925	174,041
Management fees	178,143	30,000
Taxes:		
Real estate	24,729	37,756
Income	-	35,118
Professional liability insurance	7,023	7,023
Outside services	560	552
Dues and subscriptions	500	1,025
Depreciation	359	1,454
Bank fees	261	510
Meals and entertainment	128	-
Postage	122	-
Utilities	79	84
Office supplies	38	95
Advertising and promotion	-	27,510
Expired options	-	21,000
Total expenses	1,574,107	522,995
Change in net assets for consolidated group	1,765,414	(155,952)
Net (income) loss of noncontrolling interests	(9,381)	114
Change in net assets	\$ 1,756,033	\$ (155,838)

See accompanying notes.

Lucas County Economic Development Corporation
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

	Net Assets		Total
	Controlling Interests	Noncontrolling Interests	
Balance at December 31, 2017	\$ 6,404,348	\$ 739,304	\$ 7,143,652
Change in net assets	(155,838)	(114)	(155,952)
Capital contributions	-	200,000	200,000
Balance at December 31, 2018	6,248,510	939,190	7,187,700
Change in net assets	1,756,033	9,381	1,765,414
Balance at December 31, 2019	<u>\$ 8,004,543</u>	<u>\$ 948,571</u>	<u>\$ 8,953,114</u>

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 1,765,414	\$ (155,952)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	359	1,454
(Gain) loss related to investment in limited liability companies	(69,357)	118,363
Changes in assets and liabilities:		
Accounts receivable	(3,911)	6,940
Deposits	-	11,000
Accounts payable	290,914	47,168
Accrued liabilities	170,647	(113,337)
Net cash provided by (used in) operating activities	2,154,066	(84,364)
Cash flows from investing activities:		
Advances under notes receivable	(1,175,515)	(667,054)
Increase in deferred project costs	(1,493,203)	(241,321)
Payments received on notes receivable	345,353	52,656
Additional investment in limited liability companies	(686,596)	-
(Increase) decrease in deferred loan costs and fees - net	8,976	10,023
Distribution from limited liability companies	-	336,721
Net cash provided by (used in) investing activities	(3,000,985)	(508,975)
Cash flows from financing activities:		
Proceeds from long-term debt	686,596	-
Capital contributions	-	200,000
Proceeds from notes payable	-	5,000
Net cash provided by financing activities	686,596	205,000
Net decrease in cash	(160,323)	(388,339)
Cash at beginning of year	1,457,858	1,846,197
Cash at end of year	\$ 1,297,535	\$ 1,457,858
Supplemental cash flow information:		
Cash paid for interest	\$ 200,925	\$ 300,000
Cash paid for income taxes	\$ -	\$ 35,118

See accompanying notes.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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. 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, (“Lucas County”) 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 development project known as “Hensville” (see Note 3). LCEDC is also the sole member of LCEDC Builds, LLC (“LCEDC Builds”), a wholly-owned for-profit subsidiary, which has a controlling ownership interest in Lucas County Builds (“LCB”). LCB provides collateralized debt financing for qualified projects to companies and economic development projects in Lucas County (see Note 2). Funding is provided by Lucas County and other investors.

Basis of Presentation

The Corporation presents its financial statements using the accrual basis of accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of LCEDC, Manager, LCEDC Builds, and LCB (collectively, known as the “Corporation”). All significant intercompany balances and transactions have been eliminated.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customer (Topic 606)*. This pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for all companies. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606)*. This update clarifies the implementation of the previously issued ASU above, No. 2014-09. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These pronouncements are effective for reporting periods beginning after December 15, 2018, which the Corporation adopted effective January 1, 2019. The Corporation has adopted the new standard on a full retrospective basis and has determined there is no material impact to the Corporation’s financial statements.

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:

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies - continued

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or grantor) restrictions. The Board of Directors has the ability designate, from net assets without donor restrictions, net assets for operating an operating reserve, board-designated endowment or other purposes.
- *Net Assets With Donor Restrictions* – Net assets subject to donor (or grantor) imposed restrictions. Some donor-imposed restrictions may be temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both. There are no net assets with donor restrictions.

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.

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 recorded using the equity method of accounting.

Notes Receivable

Notes receivable are stated at the unpaid principal balance, less an allowance for loan losses and net deferred loan origination fees and costs, if any. Loan origination and commitment fees, as well as certain direct origination costs, are deferred and recognized as an adjustment to interest income ratably over the life of the loan. Amortization using the straight-line method is not materially different than on the interest method. These costs are recorded as part of the notes receivable balance.

The allowance for loan losses is maintained at a level that, in management's judgement, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan, including trends in historical loss experience, specific impaired loans, economic conditions and other risks. The Corporation's practice is to charge off any portion of the receivable when and if determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. The Corporation's allowance for loan losses is \$-0- at December 31, 2019 and 2018 and there were no unpaid loans as of those dates.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies – continued

Notes Receivable – continued

The Corporation considers a loan impaired when, based on current information and factors, it is probable that the Corporation will not collect the principal and interest payments in accordance with the loan agreement. Management considers payment history and value of collateral in determining whether a loan is impaired. Loans that are contractually delinquent less than 90 days are generally not considered impaired unless the borrower has claimed bankruptcy, or the Corporation has received specific information concerning the loan impairment. The Corporation measures impairment on a loan-by-loan basis by using either the fair value of collateral or the present value of expected cash flows. There were no impaired loans as of December 31, 2019 and 2018.

There were no changes in the Corporation's accounting policies during the period. There have been no purchases, sales, or reclassifications of financing receivables. The Corporation monitors the credit quality of its notes receivable by assessing the collection experience and sufficiency of collateral related to the receivable. The current recorded note receivable is of the highest quality and shows no indication of collectability problems.

Deferred Project Costs

Costs incurred to improve assets held for resale are added to deferred project costs. These amounts will continue to be deferred until the related asset is sold and at that time will be factored into the gain or loss on sale.

Concentration of Revenue and Other Risks

Substantially all operating 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.

The Corporation maintains cash deposits in financial institutions which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The maximum loss that would result from this risk is the excess of cash deposits reported by the banks over the amounts that would have been covered by federal insurance up to \$250,000 per financial institution. The Corporation has not experienced any losses in these types of accounts and believes it is not exposed to any significant credit risk related to cash deposits.

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, 2019 and 2018.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies – continued

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 under 501(c)(3) of the Internal Revenue Code. 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. LCB is treated as a partnership for income tax purposes whereby all tax effects are passed through to its members.

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, 2019 and 2018. The Corporation's federal income tax returns for the years subsequent to 2015 remain subject to examination by the Internal Revenue Service.

Donated Services

The Corporation receives certain services without cost, primarily from Lucas County, for personnel, occupancy costs and other administrative services; however, the financial statements do not reflect the value of these contributed services.

Functional Expenses

The Corporation has program expenses that relate to providing certain program services. Directly identifiable expenses are charged to programs and supporting services when appropriate. Certain costs not directly attributable to program services, such as professional fees and certain administrative costs, have been allocated between program and management and general expenses. Professional fees are allocated to programs if the expenses incurred were related to development projects and certain administrative costs are allocated based on the estimated benefits received by program and supporting activities. Functional expenses for the years ended December 31, 2019 and 2018 were as follows:

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies – continued

Functional Expenses - continued

	2019			2018		
	Program	Management and General	Consolidated	Program	Management and General	Consolidated
Project expenses	\$ 688,380	\$ -	\$ 688,380	\$ -	\$ -	\$ -
Professional fees	438,096	34,764	472,860	89,073	97,754	186,827
Interest expense	200,925	-	200,925	174,041	-	174,041
Management fees	-	178,143	178,143	30,000	-	30,000
Taxes:						
Real estate	24,729	-	24,729	37,756	-	37,756
Income taxes	-	-	-	-	35,118	35,118
Professional liability insurance	702	6,321	7,023	702	6,321	7,023
Outside services	56	504	560	55	497	552
Dues and subscriptions	-	500	500	-	1,025	1,025
Depreciation	-	359	359	-	1,454	1,454
Bank fees	261	-	261	-	342	342
Meals and entertainment	128	-	128	-	-	-
Postage	122	-	122	-	-	-
Utilities	79	-	79	84	-	84
Office supplies	4	34	38	10	85	95
Advertising and promotion	-	-	-	-	27,510	27,510
Expired options	-	-	-	21,000	-	21,000
Miscellaneous	-	-	-	17	151	168
	<u>\$ 1,353,482</u>	<u>\$ 220,625</u>	<u>\$ 1,574,107</u>	<u>\$ 352,738</u>	<u>\$ 170,257</u>	<u>\$ 522,995</u>

Subsequent Events

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2019 financial statements through the report date, the date the financial statements are available to be issued, and determined the following subsequent event required disclosure under Accounting Standards Codification 855, *Subsequent Events*.

An outbreak and spread of the COVID-19 coronavirus occurred throughout the United States during the first quarter 2020. The extent of the economic impact on the Corporation's future financial and operational performance is uncertain at this time.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

2. Notes Receivable

Notes receivable at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Note receivable from Airport Property, LLC, interest at 2%, monthly payments of \$17,878 beginning November 2021 through October 2026 (Airport Property)	\$ 1,020,000	\$ -
Note receivable from Old Central, Inc., semi-annual payments of \$26,263 including interest at 3%, maturity in November 2026 (Overland Industrial Park)	690,606	\$ 1,012,591
Note receivable from Toledo-Lucas County Port Authority, interest at 2.5%, monthly payments of \$4,094, including interest through December 2028 (Dana)	677,081	708,847
Note receivable from COCRF Investor 92, LLC, interest at 3.5% through June 2024, monthly payments of \$3,994 beginning in July 2024 through July 2037 (Overland Industrial Park Two)	500,000	500,000
Note receivable from Balance Farms, LLC, interest at 3%, monthly payments of \$4,974 through October 2023 (Balance Farms)	392,811	242,358
Deferred fees and costs - net	8,976	(4,484)
	<u>3,289,474</u>	<u>2,459,312</u>
Current portion of notes receivable	(151,252)	(48,371)
Long-term notes receivable	<u>\$ 3,138,222</u>	<u>\$ 2,410,941</u>

In 2017, LCB advanced \$500,000 to a local developer to fund the construction of a manufacturing facility on a former brownfield site in a tax credit financing. The loan was funded through a related \$500,000 borrowing from the Toledo-Lucas County Port Authority (see Note 3). In 2019 and 2018, LCEDC advanced \$155,515 and \$242,358, respectively, to Balance Farms, LLC, for the cost of acquisition and installation of certain trade fixtures, equipment and personal property. In 2019, the Company advanced \$1,020,000 to Airport Property, LLC for the cost of acquisition of property and related costs, fees and expenses.

As discussed in Note 1, there is no allowance for loan losses at December 31, 2019 and 2018. At December 31, 2019, LCB has \$7,127 of remaining loan commitments and undrawn portions of development loans (\$162,642 at December 31, 2018). LCB generally grants collateralized loans to borrowers as discussed in Note 1. LCB's loan portfolio is focused in a particular geographic area located in Toledo, Ohio and a significant portion of the debtor's ability to repay their obligations is dependent upon the local economic conditions.

Contractual maturities for principal payments due under the notes receivable total \$3,280,498 (excluding net deferred fees) and are due as follows: 2020 - \$151,252; 2021 - \$187,955; 2022 - \$356,745; 2023 - \$356,500; 2024 - \$287,914; 2025 and thereafter - \$1,940,132.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

3. Investment in Limited Liability Companies

LCEDC 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. At December 31, 2019, LCEDC's investment balance has been written down to \$-0-.

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 was completed in April 2016.

Manager owns a noncontrolling interest in Hensville Improvements, LLC ("Improvements"), the owner of the Hensville properties, and a 1% managing-member interest in Hensville Master Tenant, LLC ("Master Tenant"), who leases the Hensville space and has made certain loan and equity investments in Improvements. Manager has made investments in Improvements and Master Tenant which has been financed with borrowings under long-term debt (see Note 7).

Investments in limited liability companies at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Hensville Improvements, LLC, interest	\$ 8,038,874	\$ 7,282,921
Hensville Master Tenant, LLC, 1% interest	39,642	39,642
Rocket Ventures Fund, LLC, 1.7% interest	-	-
Total investments	<u>\$ 8,078,516</u>	<u>\$ 7,322,563</u>

Summarized financial information of Improvements as of December 31, 2019 (unaudited) and 2018 (audited) and for the years ended is as follows:

	<u>2019</u>	<u>2018</u>
Total assets	<u>\$ 19,570,002</u>	<u>\$ 19,408,370</u>
Liabilities	\$ 9,257,722	\$ 9,004,764
Members' equity	<u>10,312,280</u>	<u>10,403,606</u>
	<u>\$ 19,570,002</u>	<u>\$ 19,408,370</u>
Revenue	\$ 694,417	\$ 809,382
Expenses	785,743	790,381
Net income (loss)	<u>\$ (91,326)</u>	<u>\$ 19,001</u>

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

4. Accrued Liabilities

Accrued liabilities at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Interest	\$ 596,581	\$ 425,934
Real estate taxes	25,189	25,189
	<u>\$ 621,770</u>	<u>\$ 451,123</u>

5. Investment Properties Held for Sale

At December 31, 2019 and 2018, LCEDC had two properties held for sale with a recorded value of \$1,462,133. Expenses incurred for managing and maintaining investment properties held for sale, including insurance, utilities, maintenance and real estate taxes amounted to \$24,808 and \$37,756 for the years ended December 31, 2019 and 2018, respectively.

In April 2019, LCEDC entered into an agreement with a developer whereby the developer would redevelop the property and operate a new 200 room nationally franchised hotel. At December 31, 2019, LCEDC continues to maintain its ownership of the SeaGate Hotel. While the initial plans for its redevelopment have not reached fruition, LCEDC continues to explore options for the reuse or sale of the structure and incorporating the facility into a more expansive redevelopment project.

6. Notes Payable

Notes payable at December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Note payable to Toledo Mud Hens Baseball Club, interest payable quarterly at 3.25%	\$ 5,467,847	\$ 4,781,251
Note payable to Toledo-Lucas County Port Authority, interest only payments due monthly at 2.5%, due June 2024	500,000	500,000
	<u>\$ 5,967,847</u>	<u>\$ 5,281,251</u>

Under an \$11,000,000 Loan Agreement and Line of Credit Promissory Note (“Note”) with the Toledo Mud Hens Baseball Club, Inc. (“Mud Hens”), Manager is borrowings monies to fund certain equity investments in Improvements and Master Tenant. Interest on the Hensville Note is only paid out of 99% of available cash flow as defined in the Note. Principal payments are limited to 99% of available cash flow less interest costs.

LCEDC has a non-interest bearing \$250,000 line of credit which LCEDC can draw down on a project-by-project basis. The line of credit is due December 2022 and no borrowings were outstanding as of December 31, 2019 and 2018.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

7. Members' Equity

The liability of the LCB's Members is limited to the individual capital contributions.

8. Management Fee

LCB pays a management fee to LCB's investment advisor for financial advisory, structuring and monitoring services. Management fees are based on 1% of total LCB capital contributions.

9. Liquidity and Availability

Financial assets held by LCEDC are available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance date, and are comprised of \$676,699 and \$16,467 in cash at December 31, 2019 and 2018, respectively. As a steward of public-related funds, LCEDC maintains all of its cash balances in safe cash accounts with no risk of loss. For funds for future operations or in the event of any unanticipated liquidity need, LCEDC would seek funding from Lucas County.

Other cash of \$620,836 and \$1,441,391 at December 31, 2019 and 2018, respectively, in LCB and Manager is designated for use in specific entities, is also maintained in similar accounts, and is available for operations.

SUPPLEMENTAL INFORMATION

Lucas County Economic Development Corporation

Consolidating Statement of Financial Position

December 31, 2019

	Lucas County Economic Development Corporation	Hensville Improvements Manager, LLC	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
Assets						
Current assets:						
Cash	\$ 676,699	\$ 4,206	\$ -	\$ 616,630	\$ -	\$ 1,297,535
Notes and accounts receivable	7,500	-	-	151,252	(7,500) (B)	151,252
Interest receivable	-	-	-	5,126	-	5,126
Total current assets	<u>684,199</u>	<u>4,206</u>	<u>-</u>	<u>773,008</u>	<u>(7,500)</u>	<u>1,453,913</u>
Property and equipment:						
Equipment and software	14,971	-	-	-	-	14,971
Furniture and fixtures	19,547	-	-	-	-	19,547
	34,518	-	-	-	-	34,518
Less accumulated depreciation	34,518	-	-	-	-	34,518
	-	-	-	-	-	-
Other assets:						
Investment in limited liability companies	-	8,078,516	2,455,158	-	(2,455,158) (A)	8,078,516
Notes receivable	-	-	-	3,138,222	-	3,138,222
Investment property held for sale	1,462,133	-	-	-	-	1,462,133
Deferred project costs	1,755,966	-	-	-	-	1,755,966
	<u>3,218,099</u>	<u>8,078,516</u>	<u>2,455,158</u>	<u>3,138,222</u>	<u>(2,455,158)</u>	<u>14,434,837</u>
Total assets	<u>\$ 3,902,298</u>	<u>\$ 8,082,722</u>	<u>\$ 2,455,158</u>	<u>\$ 3,911,230</u>	<u>\$ (2,462,658)</u>	<u>\$ 15,888,750</u>
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 346,019	\$ -	\$ -	\$ 7,500	\$ (7,500) (B)	\$ 346,019
Accrued liabilities	25,189	596,581	-	-	-	621,770
Total current liabilities	<u>371,208</u>	<u>596,581</u>	<u>-</u>	<u>7,500</u>	<u>(7,500)</u>	<u>967,789</u>
Long-term debt	-	5,467,847	-	500,000	-	5,967,847
Net assets:						
Controlling interests - unrestricted	3,531,090	2,018,294	2,455,158	2,455,159	(2,455,158) (A)	8,004,543
Noncontrolling interests	-	-	-	948,571	-	948,571
	<u>3,531,090</u>	<u>2,018,294</u>	<u>2,455,158</u>	<u>3,403,730</u>	<u>(2,455,158)</u>	<u>8,953,114</u>
Total liabilities and net assets	<u>\$ 3,902,298</u>	<u>\$ 8,082,722</u>	<u>\$ 2,455,158</u>	<u>\$ 3,911,230</u>	<u>\$ (2,462,658)</u>	<u>\$ 15,888,750</u>

(A) - To eliminate investment in subsidiary.

(B) - To eliminate intercompany receivable and payables.

Lucas County Economic Development Corporation

Consolidating Statement of Activities

Year Ended December 31, 2019

	Lucas County Economic Development Corporation	Hensville Improvements Manager, Inc.	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
Revenues:						
Contributions from Lucas County	\$ 3,185,164	\$ -	\$ -	\$ -	\$ -	\$ 3,185,164
Income (loss) related to investment in limited liability companies	-	69,357	24,809	-	(24,809) (C)	69,357
Interest income	-	-	-	85,000	-	85,000
	<u>3,185,164</u>	<u>69,357</u>	<u>24,809</u>	<u>85,000</u>	<u>(24,809)</u>	<u>3,339,521</u>
Expenses:						
Project expenses	688,380	-	-	-	-	688,380
Professional fees	461,642	-	-	11,218	-	472,860
Interest	-	189,483	-	11,442	-	200,925
Real estate taxes	24,729	-	-	-	-	24,729
Management fees	150,000	-	-	28,143	-	178,143
Insurance	7,023	-	-	-	-	7,023
Depreciation	359	-	-	-	-	359
Outside services	560	-	-	-	-	560
Dues and subscriptions	500	-	-	-	-	500
Bank fees	208	47	-	6	-	261
Meals and entertainment	128	-	-	-	-	128
Postage	122	-	-	-	-	122
Utilities	79	-	-	-	-	79
Office supplies	38	-	-	-	-	38
Total expenses	<u>1,333,768</u>	<u>189,530</u>	<u>-</u>	<u>50,809</u>	<u>-</u>	<u>1,574,107</u>
Change in net assets	1,851,396	(120,173)	24,809	34,191	(24,809)	1,765,414
Net assets at beginning of year	<u>1,679,694</u>	<u>2,138,467</u>	<u>2,430,349</u>	<u>3,369,539</u>	<u>(2,430,349) (A)</u>	<u>7,187,700</u>
Net assets at end of year	<u>\$ 3,531,090</u>	<u>\$ 2,018,294</u>	<u>\$ 2,455,158</u>	<u>\$ 3,403,730</u>	<u>\$ (2,455,158)</u>	<u>\$ 8,953,114</u>

(A) - To eliminate investment in subsidiary.

(C) - To eliminate income (loss) related to investment in subsidiary.

Lucas County Economic Development Corporation

Consolidating Statement of Financial Position

December 31, 2018

	Lucas County Economic Development Corporation	Hensville Improvements Manager, LLC	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
Assets						
Current assets:						
Cash	\$ 16,467	\$ 4,253	\$ -	\$ 1,437,138	\$ -	\$ 1,457,858
Notes and accounts receivable	-	-	-	48,371	-	48,371
Interest receivable	-	-	-	1,215	-	1,215
Total current assets	<u>16,467</u>	<u>4,253</u>	<u>-</u>	<u>1,486,724</u>	<u>-</u>	<u>1,507,444</u>
Property and equipment:						
Equipment and software	14,971	-	-	-	-	14,971
Furniture and fixtures	19,547	-	-	-	-	19,547
	<u>34,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,518</u>
Less accumulated depreciation	<u>34,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,159</u>
	359	-	-	-	-	359
Other assets:						
Investment in limited liability companies	-	7,322,563	2,430,349	-	(2,430,349) (A)	7,322,563
Notes receivable	-	-	-	2,410,941	-	2,410,941
Investment property held for sale	1,462,133	-	-	-	-	1,462,133
Deferred costs	271,739	-	-	-	-	271,739
	<u>1,733,872</u>	<u>7,322,563</u>	<u>2,430,349</u>	<u>2,410,941</u>	<u>(2,430,349)</u>	<u>11,467,376</u>
Total assets	<u>\$ 1,750,698</u>	<u>\$ 7,326,816</u>	<u>\$ 2,430,349</u>	<u>\$ 3,897,665</u>	<u>\$ (2,430,349)</u>	<u>\$ 12,975,179</u>
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 45,815	\$ -	\$ -	\$ 9,290	\$ -	\$ 55,105
Accrued liabilities	25,189	407,098	-	18,836	-	451,123
Total current liabilities	<u>71,004</u>	<u>407,098</u>	<u>-</u>	<u>28,126</u>	<u>-</u>	<u>506,228</u>
Long-term debt	-	4,781,251	-	500,000	-	5,281,251
Net assets:						
Controlling interests - unrestricted	1,679,694	2,138,467	2,430,349	2,430,349	(2,430,349) (A)	6,248,510
Noncontrolling interests	-	-	-	939,190	-	939,190
	<u>1,679,694</u>	<u>2,138,467</u>	<u>2,430,349</u>	<u>3,369,539</u>	<u>(2,430,349)</u>	<u>7,187,700</u>
Total liabilities and net assets	<u>\$ 1,750,698</u>	<u>\$ 7,326,816</u>	<u>\$ 2,430,349</u>	<u>\$ 3,897,665</u>	<u>\$ (2,430,349)</u>	<u>\$ 12,975,179</u>

(A) - To eliminate investment in subsidiary.

Lucas County Economic Development Corporation

Consolidating Statement of Activities

Year Ended December 31, 2018

	Lucas County Economic Development Corporation	Hensville Improvements Manager, Inc.	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
Revenues:						
Contributions from Lucas County	\$ 400,000	\$ -	\$ -	\$ -	\$ -	\$ 400,000
Income (loss) related to investment in limited liability companies	(23,560)	(94,803)	(303)	-	303 (B)	(118,363)
Interest income	-	-	-	85,406	-	85,406
	<u>376,440</u>	<u>(94,803)</u>	<u>(303)</u>	<u>85,406</u>	<u>303</u>	<u>367,043</u>
Expenses:						
Professional fees	169,514	1,500	-	15,813	-	186,827
Interest	-	161,541	-	12,500	-	174,041
Taxes:						
Real estate	37,756	-	-	-	-	37,756
Income	-	35,118	-	-	-	35,118
Management fees	-	-	-	30,000	-	30,000
Advertising and promotion	-	-	-	27,510	-	27,510
Expired options	21,000	-	-	-	-	21,000
Insurance	7,023	-	-	-	-	7,023
Depreciation	1,454	-	-	-	-	1,454
Dues and subscriptions	1,025	-	-	-	-	1,025
Outside services	552	-	-	-	-	552
Bank fees	342	168	-	-	-	510
Office supplies	95	-	-	-	-	95
Utilities	84	-	-	-	-	84
Total expenses	<u>238,845</u>	<u>198,327</u>	<u>-</u>	<u>85,823</u>	<u>-</u>	<u>522,995</u>
Change in net assets	137,595	(293,130)	(303)	(417)	303	(155,952)
Net assets at beginning of year	1,542,099	2,431,597	2,430,652	3,169,956	(2,430,652) (A)	7,143,652
Capital contributions	-	-	-	200,000	-	200,000
Net assets at end of year	<u>\$ 1,679,694</u>	<u>\$ 2,138,467</u>	<u>\$ 2,430,349</u>	<u>\$ 3,369,539</u>	<u>\$ (2,430,349)</u>	<u>\$ 7,187,700</u>

(A) - To eliminate investment in subsidiary.

(B) - To eliminate income (loss) related to investment in subsidiary.

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 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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 8, 2020, wherein we noted the impact of COVID-19 on subsequent periods of LCEDC.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LCEDC's consolidated 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 consolidated 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
May 8, 2020

OHIO AUDITOR OF STATE KEITH FABER



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
JUNE 16, 2020**