



# Balestra, Harr & Scherer, CPAs, Inc.

---

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

HICKORY CHASE COMMUNITY AUTHORITY  
FRANKLIN COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2011 and December 31, 2010  
Fiscal Years Audited Under GAGAS: 2011 and 2010





# Dave Yost • Auditor of State

Board of Trustees  
Hickory Chase Community Authority  
3800 Municipal Way  
Hilliard, Ohio 43026

We have reviewed the *Independent Auditor's Report* of the Hickory Chase Community Authority, Franklin County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2010 through December 31, 2011. 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 Hickory Chase Community Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 26, 2012

**This page intentionally left blank.**

**Hickory Chase Community Authority  
Franklin County**

*Table of Contents  
For the Years Ended December 31, 2011 and 2010*

<u>Title</u>	<u>Page</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	3
Financial Statements:	
Statement of Net Assets as of December 31, 2011 .....	6
Statements of Revenues, Expenses, and Changes in Net Assets for the year ended December 31, 2011 .....	7
Statement of Cash Flows for the year ended December 31, 2011.....	8
Statement of Net Assets as of December 31, 2010 .....	9
Statements of Revenues, Expenses, and Changes in Net Assets for the year ended December 31, 2010 .....	10
Statement of Cash Flows for the year ended December 31, 2010.....	11
Notes to the Financial Statements .....	12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23

**This page intentionally left blank.**



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## Independent Auditor's Report

Board of Trustees  
Hickory Chase Community Authority  
3800 Municipal Way  
Hilliard, Ohio 43026

We have audited the accompanying financial statements of the Hickory Chase Community Authority, Franklin County, Ohio (the Authority), as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hickory Chase Community Authority, Franklin County, Ohio as of December 31, 2011 and 2010, and the respective changes in net assets and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2012, on our consideration of the Authority'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Board of Trustees  
Hickory Chase Community Authority  
Franklin County  
Independent Auditor's Report  
Page 2

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 9 to the financial statements, as shown in the financial statements, the Authority has significant liabilities as a result of outstanding bonds payable, lack of substantial revenue necessary for debt payments, and a minimal cash balance as of December 31, 2011. These conditions raise substantial doubt about the Authority's ability to continue as a going concern. Management's plans regarding those matters are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Balestra, Harr & Scherer, CPAs, Inc.  
June 30, 2012

**HICKORY CHASE COMMUNITY AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
(UNAUDITED)**

The Management’s Discussion and Analysis of financial performance of the Hickory Chase Community Authority (the “Authority”) provide an overall review of the Authority’s financial activities for the years ended December 31, 2011 and 2010. The intent of this discussion and analysis is to look at the Authority’s financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Authority’s financial performance.

**Financial Highlights**

1. The Authority incurred long term debt of \$25,760,000 in infrastructure improvement revenue bonds on April 29, 2008, bearing interest at 6.75% and 7.0% per annum with a final maturity of December 1, 2038. The Authority’s debt is payable from the Pledged Receipts consisting of (i) service payments in lieu of taxes, (ii) Community Development Charges, and (iii) Impact Fees collected from building permits.
2. Net assets at December 31, 2011 and 2010 totaled \$(21,647,705) and \$(19,678,986), respectively.
3. Completed public improvements were donated to the City of Hilliard upon completion in December 2010.
4. Community Development Charges of \$1,983,037 and \$544,957 were imposed on the property for calendar year 2011, payable in 2012, and 2010, payable in 2011, respectively. Currently, charges totaling \$1,631,455, representing the first installment for 2011 and all 2010 charges, plus penalties and interest, are delinquent.
5. The TIF ordinance was approved by the State of Ohio on March 22, 2011. However, since property taxes have not been collected, no service payments in lieu of taxes have been remitted to the Authority.
6. No Impact Fees have been accrued or collected in 2011 or 2010 as construction has ceased.

**Overview of the Financial Statements**

This annual report consists of two parts – (i) Management’s Discussion and Analysis and (ii) the basic financial statements consisting of a *Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows;* and related footnotes. The Statement of Net Assets represents the financial position of the Authority and provides information about the activities of the Authority, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
(UNAUDITED)**

**Summary Statement of Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Other assets	\$ 4,297,464	\$ 6,234,473	\$ 8,952,726
	<u>-</u>	<u>-</u>	<u>17,630,807</u>
Total assets	<u>4,297,464</u>	<u>6,234,473</u>	<u>26,583,533</u>
Liabilities:			
Current liabilities	185,169	153,459	758,967
Long-term debt	<u>25,760,000</u>	<u>25,760,000</u>	<u>25,760,000</u>
Total Liabilities	<u>25,945,169</u>	<u>25,913,459</u>	<u>26,518,967</u>
Net Assets			
Invested in capital assets, net of discount	-	-	(8,129,193)
Restricted	3,537,006	5,442,806	8,127,548
Unrestricted	<u>(25,184,711)</u>	<u>(25,121,792)</u>	<u>66,211</u>
Total Net Assets	<u><u>\$ (21,647,705)</u></u>	<u><u>\$ (19,678,986)</u></u>	<u><u>\$ 64,566</u></u>

Completed infrastructure improvements were donated to the City of Hilliard, Ohio, in 2010. Other assets decreased due to the Authority making debt payments with no receipt of pledged revenues during 2011 or 2010.

**Summary Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ -	\$ -	\$ -
Operating Expenses	<u>171,912</u>	<u>66,470</u>	<u>72,931</u>
Operating Income (Loss)	(171,912)	(66,470)	(72,931)
Non-operating Expenses	(1,796,807)	(173,814)	(28,250)
Donated Capital Assets	<u>-</u>	<u>(19,503,268)</u>	<u>-</u>
Change in Net Assets	<u><u>\$ (1,968,719)</u></u>	<u><u>\$ (19,743,552)</u></u>	<u><u>\$ (101,181)</u></u>

In 2011 and 2010, no pledged revenues were collected to offset operating and other Authority expenses. Infrastructure improvements were donated to the City of Hilliard, Ohio, upon completion in 2010.

**HICKORY CHASE COMMUNITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
(UNAUDITED)**

**Capital Assets**

The Authority's capital assets consisted of infrastructure improvements financed with the Series 2008 bonds. Upon completion of the improvements in December 2010, the improvements were donated to the City of Hilliard, Ohio, pursuant to the Developer's Agreement. For more information on the Authority's capital assets, see Note 4 of the Notes to the Financial Statements.

**Long-Term Debt**

The Authority issued Infrastructure Improvement Revenue Bonds, Series 2008, totaling \$25,760,000 dated April 29, 2008 bearing interest at 6.75% and 7.00% per annum with a final maturity of December 1, 2038. This bond issuance represents 100% of the Authority's long-term debt balance. The 2008 bonds are subject to optional, mandatory sinking fund, and extraordinary mandatory redemption requirements.

The bond proceeds were used to fund infrastructure improvements including improvements to roads within the District, improvements to storm and sanitary sewers, pedestrian facilities, traffic control, landscaping and irrigation. The debt service will be paid annually beginning December 1, 2008 by the Capitalized Interest Fund through June 1, 2011 and by the Pledged Revenues thereafter. For more information on the Authority's long term debt, see Note 5 of the Notes to the Financial Statements.

**Pledged Revenues**

Debt service charges on the bonds are payable from the Pledged Receipts which include Available Service Payments, Impact Fees, and Community Development Charges. The TIF ordinance was approved by the State of Ohio on March 22, 2011. However, no Available Service Payments have been accrued or received to date as the property owner has failed to make property tax payments. It is estimated that approximately \$287,000 and \$292,000 will be paid to the Authority for fiscal year 2009 and 2010, respectively, once property tax payments are brought current.

Community Development Charges of \$1,983,037 and \$544,957 were imposed on the property for calendar year 2011 and 2010 payable in 2012 and 2011, respectively. Currently, charges totaling \$1,631,455, representing the first installment for 2011, all 2010 charges and penalties and interest, are delinquent.

**Economic Factors and Future Outlook**

The construction lender has begun foreclosure proceedings on the property due to non-payment of the construction loan. The Authority has filed a motion for summary judgment to establish its lien interests in the property. It is unknown what effect, if any, these legal actions will have on the future ability of the Authority to meet its financial obligations. However, we anticipate, at the least, additional administrative and legal costs associated with these filings. Further discussion of the pending legal actions is included in Note 7—Status of the Development and Developer of the Notes to the Financial Statements.

**Contacting Authority's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to reflect the Authority's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to the Authority's Administrator, MuniCap, Inc., at 8965 Guilford Road, Suite 210, Columbia, Maryland 21046.

**HICKORY CHASE COMMUNITY AUTHORITY  
STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2011**

	<u><b>2011</b></u>
<b>ASSETS</b>	
Current Assets	
Cash, cash equivalents and investments	\$ 3,537,006
Interest receivable	45
Total Current Assets	<u>3,537,051</u>
Noncurrent Assets	
Deferred bond issue costs	760,413
Total Noncurrent Assets	<u>760,413</u>
<b>TOTAL ASSETS</b>	<u><u>4,297,464</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	
Current Liabilities	
Accounts payable	36,603
Accrued bond interest	148,566
Total Current Liabilities	<u>185,169</u>
Long Term Liabilities	
Bonds payable	25,760,000
Total Liabilities	<u>25,945,169</u>
<b>NET ASSETS</b>	
Restricted assets	3,537,006
Unrestricted assets	(25,184,711)
Total Net Assets	<u>(21,647,705)</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u><u>\$ 4,297,464</u></u>

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

		<u>2011</u>	
Operating Revenues	\$	-	
Operating Expenses			
Administrative fees		42,224	
Legal fees		127,175	
Insurance expense		2,513	
Total Operating Expenses		<u>171,912</u>	
Operating Income (Loss)		<u>(171,912)</u>	
Non-Operating Revenues (Expenses)			
Interest income		14,232	
Interest expense		(1,782,788)	
Amortization expense		(28,251)	
Total Non-Operating Expenses		<u>(1,796,807)</u>	
Change in Net Assets		(1,968,719)	
Net Assets, Beginning of Year		<u>(19,678,986)</u>	
Net Assets, End of Year	\$	<u><u>(21,647,705)</u></u>	

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u><b>2011</b></u>
Cash Flows from Operating Activities	
Cash payments for administrative fees	\$ (38,680)
Cash payments for legal fees	(96,634)
Cash payments for insurance	(4,888)
Net Cash (Used in) Provided by Operating Activities	<u>(140,202)</u>
 Cash Flows from Investing Activities	
Interest received on investments	<u>17,190</u>
Net Cash Provided by Investing Activities	<u>17,190</u>
 Cash Flows from Capital and Related Financing Activities	
Interest paid on bonds	<u>(1,782,788)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,782,788)</u>
 Net Decrease in Cash and Cash Equivalents	(1,905,800)
Cash and Cash Equivalents, Beginning of Year	<u>5,442,806</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,537,006</u>
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:	
Operating Loss	\$ (171,912)
Adjustments:	
(Decrease) increase in accounts payable	<u>31,710</u>
 Net Cash (Used in) Provided by Operating Activities	<u>\$ (140,202)</u>

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY  
STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2010**

	<u><b>2010</b></u>
<b>ASSETS</b>	
Current Assets	
Cash, cash equivalents and investments	\$ 5,442,806
Interest receivable	3,003
Total Current Assets	<u>5,445,809</u>
Noncurrent Assets	
Deferred bond issue costs	788,664
Total Noncurrent Assets	<u>788,664</u>
<b>TOTAL ASSETS</b>	<u><u>6,234,473</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	
Current Liabilities	
Accounts payable	4,893
Accrued bond interest	148,566
Total Current Liabilities	<u>153,459</u>
Long Term Liabilities	
Bonds payable	25,760,000
Total Liabilities	<u>25,913,459</u>
<b>NET ASSETS</b>	
Restricted assets	5,442,806
Unrestricted assets	(25,121,792)
Total Net Assets	<u>(19,678,986)</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u><u>\$ 6,234,473</u></u>

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u><b>2010</b></u>
Operating Revenues	\$ -
Operating Expenses	
Administrative fees	14,830
Legal fees	48,852
Insurance expense	2,788
Total Operating Expenses	<u>66,470</u>
Operating Income (Loss)	<u>(66,470)</u>
Non-Operating Revenues (Expenses)	
Interest income	3,003
Interest expense	(148,566)
Amortization expense	(28,251)
Total Non-Operating Expenses	<u>(173,814)</u>
Donated Capital Assets	<u>(19,503,268)</u>
Change in Net Assets	(19,743,552)
Net Assets, Beginning of Year	64,566
Net Assets, End of Year	<u><u>\$ (19,678,986)</u></u>

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u><b>2010</b></u>
Cash Flows from Operating Activities	
Cash payments for administrative fees	\$ (15,015)
Cash payments for legal fees	(52,593)
Cash payments for insurance	(413)
Net Cash (Used in) Provided by Operating Activities	<u>(68,021)</u>
Cash Flows from Investing Activities	
Interest received on investments	<u>77,012</u>
Net Cash Provided by Investing Activities	<u>77,012</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(910,946)
Interest paid on bonds	<u>(1,782,787)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(2,693,733)</u>
Net Decrease in Cash and Cash Equivalents	(2,684,742)
Cash and Cash Equivalents, Beginning of Year	<u>8,127,548</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,442,806</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:	
Operating Loss	\$ (66,470)
Adjustments:	
(Decrease) increase in accounts payable	<u>(1,551)</u>
Net Cash (Used in) Provided by Operating Activities	<u>\$ (68,021)</u>
Capital and Related Financing Activities that do not affect Cash:	
Donated Capital Assets	<u>\$ 19,503,268</u>

See accompanying notes to the financial statements.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 1—FINANCIAL REPORTING ENTITY**

The Hickory Chase Community Authority (the “Authority”) was created pursuant to Chapter 349 of the Ohio Revised Code (the “Act”) which provides for the creation of “new community districts”. On June 2, 2007 Columbus Campus, LLC (the “Developer”) filed a petition (the “Petition”) for the establishment of the Authority with the Board of County Commissioners of Franklin County, Ohio. In accordance with the Act, the Petition was accepted by the County Commissioners’ Resolution No. 663-07 on July 31, 2007. By its Resolution, the County Commissioners determined that the new community district would be conducive to the public health, safety, convenience and welfare, and that it was intended to result in the development of a new community as described in the Act. The Authority was thereby organized as a body corporate and politic in the State.

The Hickory Chase Community District (the “District”) consists of approximately 77 acres of land and is located southeast of the intersection of Leap Road and Davidson Road in the City of Hilliard, Ohio. The development was originally planned to consist of a continuing care retirement community with approximately 1,529 independent living units in thirteen multi-story congregate residential buildings, two community buildings, a chapel and a maintenance building. In addition, a health care center, including approximately 132 assisted living units and 84 skilled nursing units, was to be constructed within the development but outside the District. Currently, the Developer has ceased construction of the project.

The Series 2008 Bonds are special obligations of Hickory Chase Community Authority, as “Issuer”, payable solely from the Pledged Receipts, as defined in the Trust Agreement, dated as of March 1, 2008 (the “Trust Agreement”) between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Pledged Receipts consist of (i) the service payments to be paid to the Issuer by the City of Hilliard (the “City”) under an Intergovernmental Cooperation Agreement by and among the Issuer, the Trustee and the City (“Available Service Payments”), (ii) the money collected by the Issuer as community development charges on property within the District (“Community Development Charges”), (iii) impact fees collected by the City from the Developer from building permits issued by the City for each independent living unit within the District and transferred to the Issuer pursuant to the Cooperative Agreement (“Impact Fees”), (iv) all receipts standing to the credit of the Revenue Fund, the Debt Service Fund, the Impact Fee Fund, the Project Fund, the Bond Reserve Fund, the Supplemental Reserve Fund and the Surplus Fund, and (v) any other revenues, receipts and other moneys assigned under the Trust Agreement.

Bond proceeds in the amount of \$25,760,000 were used to finance improvements to roads within the District, improvements to storm and sanitary sewers, pedestrian facilities, traffic control, landscaping and irrigation. Erickson Retirement Communities

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 1—FINANCIAL REPORTING ENTITY (CONTINUED)**

(“Erickson”) was to develop the Development, known as “Hickory Chase”, on behalf of the Developer, pursuant to a Development Agreement entered into between the Developer and Erickson. Erickson is the sole member of the Developer and Erickson Construction, LLC, the construction manager for the Development.

The Authority is governed by a Board of Trustees composed of seven members. The County Commissioners appoint three members to represent the interest of present and future residents of the District and one member to serve as a representative of local government. The Developer appoints three members as representatives of the Developer. Upon the Developer’s withdrawal from the project, all Developer members resigned and have not currently been replaced. Members currently serve without compensation.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Authority also applies financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

*Basis of Accounting and Presentation*

The Authority’s basic financial statements consist of a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. The Authority uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority’s financial activity is accounted for using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs.

The Authority uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which the related liability is incurred.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Cash and Cash Equivalents*

The Authority considers all highly liquid investments having an original maturity of three months or less when purchased to be cash equivalents.

*Debt Issuance Costs*

Debt issuance costs are amortized equally over the life of the bond using the straight-line method of amortization.

*Capitalized Financing Costs*

The Authority capitalizes financing costs that relate to the construction of the infrastructure improvements. Interest costs of improvements made with tax exempt borrowings are reduced by interest earned on invested debt proceeds over the same construction period.

*Capital Assets*

Capital assets are capitalized at cost and updated for additions and reductions during the year. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. The Authority does not depreciate capital assets as all assets will be donated upon completion.

*Operating Revenues and Expenses*

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the Authority. All revenues and expenses not meeting this definition are reported as non-operating.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

*Restricted Assets*

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent assets that are only to be used for developing roadways in the District.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 3—CASH AND CASH EQUIVALENTS**

State statutes classify monies held by the Authority into three categories:

**Active deposits** are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Authority treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**Inactive deposits** are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, pass book accounts.

**Interim deposits** are deposits of interim monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debenture, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Banks, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreements must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 3—CASH AND CASH EQUIVALENTS (CONTINUED)**

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio).

The Authority may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio,
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the Authority.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer, or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

*Deposits*

Custodial Credit Risk – Deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. There is no custodial credit risk to these accounts as the entire bank balance was covered by the Federal Deposit Insurance Corporation or collateralized in accordance with the requirements of the Trust Indenture.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 3—CASH AND CASH EQUIVALENTS (CONTINUED)**

*Investments*

As of December 31, 2011 and 2010, the Authority had the following investments and maturities:

<b><u>2011</u></b>	Fair Value	6 months or less	7 or more months
Cash	\$ 2,026,050	\$ 2,026,050	\$ -
Money Market Funds	1,510,956	1,510,956	-
Total	\$ 3,537,006	\$ 3,537,006	\$ -

  

<b><u>2010</u></b>	Fair Value	6 months or less	7 or more months
Money Market Funds	\$ 4,406,775	\$ 4,406,775	\$ -
Repurchase Agreements	1,036,031	1,036,031	-
Total	\$ 5,442,806	\$ 5,442,806	\$ -

Interest rate risk is the risk that an interest rate change could adversely affect an investment's fair value. The Authority does not have a policy to limit its exposure to interest rate risk; however, the Authority's investments in money market funds are withdrawable on demand.

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Trust Indenture specifies that investment providers must have a rating of at least "AA-" by S&P or "Aa3" by Moody's. Investments at December 31, 2011 and 2010 have met the ratings criteria.

Concentration of credit risk can also arise by failing to adequately diversify investments. The Authority places no limits on the amount that may be invested in any one issuer.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 4—CAPITAL ASSETS**

Pursuant to the Developer’s Agreement, all infrastructure improvements were donated to the City of Hilliard, Ohio, upon completion in December 2010. This is presented in the financial statements as “Donated Capital Assets”. Therefore, the Authority has no capital assets as of December 31, 2011.

The Authority’s capital asset activity for the year ended December 31, 2010 was as follows:

<u>2010</u>	Beginning Balance	Additions	Transfers	Donations	Ending Balance
Construction in progress	\$ 15,371,601	\$ 306,988	\$ (15,678,589)	\$ -	\$ -
Capitalized bond interest	2,981,216	1,634,222	(4,615,438)	-	-
Capitalized investment income	(722,010)	(68,749)	790,759	-	-
Public Improvements	-	-	19,503,268	(19,503,268)	-
Total Capital Assets	<u>\$ 17,630,807</u>	<u>\$ 1,872,461</u>	<u>\$ -</u>	<u>\$ (19,503,268)</u>	<u>\$ -</u>

**NOTE 5—LONG-TERM DEBT**

On April 29, 2008 the Authority issued Infrastructure Improvement Revenue Bonds, Series 2008 (the “Bonds”) in the amount of \$25,760,000 for the purpose of (i) financing the cost of certain infrastructure improvements within the District, (ii) funding the Bond Reserve Fund in the amount required, (iii) funding interest on the Bonds for a period of three years from the issuance date, and (iv) paying certain costs relating to the issuance of the Bonds.

The Bonds constitute two term bonds:

- Term 1 Bonds, bearing interest at 6.75% with a final maturity at December 1, 2027, and
- Term 2 Bonds, bearing interest at 7.0% with a final maturity at December 1, 2038.

Interest on the Bonds shall be paid each June 1 and December 1 beginning on December 1, 2008. Interest payments totaled \$1,782,787 for each of the years 2011 and 2010. The Bonds are subject to optional redemption, mandatory sinking fund redemption, and extraordinary mandatory redemption at various dates through December 1, 2038.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 5—LONG-TERM DEBT (CONTINUED)**

Annual debt service requirements to maturity for the Bonds are as follows:

For the Year	<u>Term 2027 Bonds 6.75% \$8,165,000</u>		<u>Term 2038 Bonds 7.0% \$17,595,000</u>	
<u>Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ 551,138	\$ -	\$ 1,231,650
2013	-	551,138	-	1,231,650
2014	-	551,138	-	1,231,650
2015	-	551,138	-	1,231,650
2016	105,000	551,138	-	1,231,650
2017-2021	2,635,000	2,453,288	-	6,158,250
2022-2026	4,370,000	1,279,125	-	6,158,250
2027-2031	1,055,000	71,213	5,010,000	5,661,250
2032-2036	-	-	8,510,000	3,293,500
2037-2038	-	-	4,075,000	425,250
	<u>\$ 8,165,000</u>	<u>\$ 6,559,316</u>	<u>\$ 17,595,000</u>	<u>\$ 27,854,750</u>

As of December 31, 2011, the Bond Reserve fund did not meet the required balance due to a draw being made in order to pay the debt service. The required balance is \$2,362,838, and the actual balance was \$1,471,562. While the Authority is obligated to disclose the event, the legal requirement to refund the Bond Reserve fund is that of the Property Owner.

**NOTE 6—PLEGGED RECEIPTS REVENUE**

Debt service charges on the bonds are payable from the Pledged Receipts which include (i) Available Service Payments, (ii) Impact Fees, and (iii), Community Development Charges, if any. There were no Available Service Payments accrued for or received during 2011 or 2010.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 6—PLEGDED RECEIPTS REVENUE (CONTINUED)**

The Authority has the power to require current and future property owners within the District to pay a Community Development Charge for the benefit and use of the Authority to cover all or a part of the cost of the acquisition, construction, operation and maintenance of the improvements. The annual required installment for any calendar year is the amount estimated to be equal to: (i) annual debt service and administrative expenses, less (ii) assets available for the payment of such debt service and expense. Community Development Charges, unless prepaid, will be payable in installments at the same time general real estate taxes are paid to Franklin County. The county has agreed to apply its customary tax payment enforcement proceedings to the collection of any delinquent payment of Community Development Charges.

Community Development Charges delinquent for fiscal years 2011 and 2010 are shown below:

	2010	1st half 2011
Charges due	\$ 544,957	\$ 991,519
Penalties and interest	94,980	-
Less: collections	-	-
Delinquent	\$ 639,937	\$ 991,519

Total Charges of \$1,983,037 have been imposed for fiscal year 2011. The second half of the fiscal year 2011 charges is due to be paid in June 2012. The Authority has determined that the delinquent amounts are uncollectable at this time, due to the bankruptcy of the Developer/Owner, and therefore have offset the receivable with an allowance for uncollectable development charges.

**NOTE 7—STATUS OF THE DEVELOPMENT AND DEVELOPER**

On July 2, 2009, KeyBank National Association, as construction lender for Hickory Chase, filed a foreclosure complaint in the Franklin County Court of Common Pleas (case number is 09 CVE 79921) seeking to foreclose on the Hickory Chase site for nonpayment of certain amounts due to KeyBank and other construction lenders under the construction loan.

On October 19, 2009, Erickson Retirement Communities filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Texas. On December 22, 2009, an auction sale of the majority of Erickson’s assets was held and Redwood Capital Investments, LLC (“Redwood”) emerged as the successful bidder. The foreclosure action by Key Bank was delayed by the bankruptcy filing.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 7—STATUS OF THE DEVELOPMENT AND DEVELOPER (CONTINUED)**

On December 22, 2009, an auction sale of the majority of Erickson’s assets was held and Redwood Capital Investments, LLC (“Redwood”) emerged as the successful bidder.

On December 30, 2009, a Disclosure Statement for Debtor’s First Amended Joint Plan of Reorganization was filed in the bankruptcy matter which deals in part with assets of Erickson that will not be purchased by Redwood, including the Hickory Chase site. Under the Amended Plan and Disclosure Statement, Erickson proposed to liquidate the Hickory Chase site through a Bankruptcy Code Section 363 sale or deed in lieu of sale transaction where the buyer would receive title free and clear of all liens and the proceeds of the sale would be distributed to the creditor of Columbus Campus, LLC. Bond counsel has prepared an objection to the Disclosure Statement to clarify that the lien interest held by the Authority and the Trustee on the Hickory Chase site exists as a matter of state law and cannot be extinguished.

The U.S. Bankruptcy Court ordered the automatic stay of the state foreclosure action affecting the real property at the Hickory Chase project be lifted on April 29, 2010. On May 25, 2010, the Franklin County Court of Common Pleas lifted the automatic stay in the foreclosure matter that was filed on July 2, 2009 by KeyBank, as construction lender for the Hickory Chase development. As a result, the bankruptcy matter no longer prohibits the adjudication of the foreclosure matter. A status conference has been held among all interested parties to the foreclosure matter, and the matter will proceed in the Franklin County Court of Common Pleas.

On January 28, 2011, a motion for summary judgment was filed in the Franklin County Court of Common Pleas in order to establish the Authority’s lien interests in the property. The motion was filed asking the Court to grant a motion for summary judgment so that the Authority’s and Trustee’s lien interests with respect to the property are resolved and protected throughout the remainder of the litigation and in any sale, transfer, or conveyance of the property.

According to the bond counsel, the judge has entered a decree of foreclosure, granting the plaintiff lenders the right to sell the property. Presently, the receiver is not actively marketing the property, but entertaining interested parties who come forward. It is unclear at this time when a sale might occur. Once the property is sold, the sale proceeds will either be distributed to the appropriate parties or held in escrow. In addition, there are a number of outstanding motions.

**HICKORY CHASE COMMUNITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NOTE 8—CONTINGENT LIABILITIES**

As of December 31, 2011 there were no claims or lawsuits pending against the Authority.

**NOTE 9—GOING CONCERN**

The Authority's cash balance at year end December 31, 2011 was \$3,537,007. The Authority has outstanding long term debt in the amount of \$25,760,000, which has required payments of \$1,782,788 during 2012 and 2013. The Authority has not received any pledged revenues since 2009, due to the bankruptcy filing of the Developer. The only income currently being received by the Authority is interest revenue, which is not substantial enough to support the debt payments. The Authority, in line with the indenture, made the final debt payment in 2011 with funds from the Bond Reserve account, which lowered that account below the required reserve amount. While the maintenance of the fund balance requirement falls in the hands of the Trustee, the Authority is obligated to disclose the event, and did so. The Authority will be able to make three more semi-annual debt payments with the current cash balance, and if no revenues are received, will not have enough cash to make another debt payment. The receipt of the pledged revenues is very unsure. The Authority has taken the proper steps to collect the pledged revenues per the indenture, but there has been no receipt at this point. Due to these circumstances, we feel that there is cause for a going concern.

**NOTE 10—MANAGEMENT PLAN**

All Authority obligations, including its bonds and obligation to pay debt service charges on its Bonds are limited to the extent of Pledged Receipts received by the Authority. The Authority's Bonds are "conduit" obligations under applicable state and federal bond laws and as such the Authority has no economic control over the property owner's ability to pay the Pledged Receipts due. The current property owner is Columbus Campus LLC, a bankrupt entity, and the property is currently subject to a foreclosure action in the Franklin County Court of Common Pleas. The Authority has adhered to the terms of the Trust Agreement between the Authority and Wells Fargo Bank (the Trustee) to enforce the collection of Pledged Receipts. While it is highly unlikely that the current property owner will generate Pledged Receipts sufficient to pay the debt service charges on the Bonds, the Authority will continue to annually certify charges to the Franklin County Auditor to be placed on property tax duplicate and will continue to pursue foreclosure action against Columbus Campus LLC seeking to foreclose on the lien established by the unpaid service payments and unpaid Community Development Charges (Pledged Receipts).



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Hickory Chase Community Authority  
Franklin County  
3800 Municipal Way  
Hilliard, Ohio 43026

To the Board of Trustees:

We have audited the financial statements of the Hickory Chase Community Authority, Franklin County, (the Authority), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 30, 2012, wherein we noted certain conditions that raise substantial doubt about the Authority's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
June 30, 2012



# Dave Yost • Auditor of State

HICKORY CHASE COMMUNITY AUTHORITY

FRANKLIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
NOVEMBER 8, 2012