

LUCAS COUNTY ECONOMIC DEVELOPMENT CORPORATION

Consolidated Financial Statements and Supplemental Information

Years Ended December 31, 2016 and 2015

With Independent Auditors' Report



CLARK SCHAEFER HACKETT
CPAs & ADVISORS



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lucas County Economic Development Corporation, Lucas County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2016 through December 31, 2016. 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 "Dave Yost".

Dave Yost
Auditor of State

July 10, 2017

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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, 2016 and 2015, 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 financial position of Lucas County Economic Development Corporation as of December 31, 2016 and 2015, 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.

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 on page 13-14 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 June 14, 2017, on our consideration of Lucas County Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lucas County Economic Development Corporation's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Toledo, Ohio
June 14, 2017

Lucas County Economic Development Corporation

Consolidated Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 2,320,209	\$ 192,814
Property and equipment:		
Equipment and software	14,971	14,971
Furniture and fixtures	19,547	19,547
	<u>34,518</u>	<u>34,518</u>
Less accumulated depreciation	<u>30,445</u>	<u>26,672</u>
	4,073	7,846
Other assets:		
Investment in limited liability companies	10,873,206	4,273,558
Investment property held for sale	1,392,413	1,392,413
Notes receivable	750,000	-
Land held for sale	450	450
	<u>13,016,069</u>	<u>5,666,421</u>
Total assets	<u>\$ 15,340,351</u>	<u>\$ 5,867,081</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 21,046	\$ 9,007
Funds held on behalf of other parties	545,605	111,207
Accrued liabilities	362,430	65,185
Deferred revenue	10,000	-
Long-term debt	10,849,019	4,251,201
Total liabilities	<u>11,788,100</u>	<u>4,436,600</u>
Net assets - unrestricted	<u>3,552,251</u>	<u>1,430,481</u>
Total liabilities and net assets	<u>\$ 15,340,351</u>	<u>\$ 5,867,081</u>

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Activities

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Contributions from Lucas County	\$ 2,525,000	\$ 1,282,811
Income related to investment in limited liability companies	1,830	-
Miscellaneous	666	-
Interest income	-	185
	<u>2,527,496</u>	<u>1,282,996</u>
Expenses:		
Interest	297,245	53,077
Professional fees	78,360	38,170
Real estate taxes	24,217	26,428
Depreciation	3,773	3,810
Utilities	961	884
Professional liability insurance	450	420
Outside services	437	404
Dues and subscriptions	200	674
Office supplies	83	31
Grants	-	1,202,872
Bad debts	-	2,587
Meals and entertainment	-	399
Payroll taxes and workers' compensation	-	281
Telephone and internet	-	250
Miscellaneous	-	1,113
Total expenses	<u>405,726</u>	<u>1,331,400</u>
Change in net assets	2,121,770	(48,404)
Net assets at beginning of year	<u>1,430,481</u>	<u>1,478,885</u>
Net assets at end of year	<u>\$ 3,552,251</u>	<u>\$ 1,430,481</u>

See accompanying notes.

Lucas County Economic Development Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,121,770	\$ (48,404)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,773	3,810
Income related to investment in limited liability companies	(1,830)	-
Contribution of property from Lucas County	-	(1,282,811)
Changes in assets and liabilities:		
Accounts receivable	-	28,837
Accounts payable	12,039	8,350
Accrued liabilities	297,245	50,877
Deferred revenue	10,000	-
Net cash provided by (used in) operating activities	2,442,997	(1,239,341)
Cash flows from investing activities:		
Additional investment in limited liability companies	(6,597,818)	(4,251,201)
Advances under notes receivable	(750,000)	-
Proceeds from sale of property	-	1,282,811
Payments received on note receivable	-	12,875
Distributions received from limited liability companies	-	3,090
Net cash used in investing activities	(7,347,818)	(2,952,425)
Cash flows from financing activities:		
Proceeds from long-term debt	6,597,818	4,251,201
Funds held on behalf of other parties	434,398	111,207
Net cash provided by financing activities	7,032,216	4,362,408
Net increase in cash	2,127,395	170,642
Cash at beginning of year	192,814	22,172
Cash at end of year	\$ 2,320,209	\$ 192,814

See accompanying notes.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies

Business Activity

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

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

In 2016, LCEDC formed LCEDC Builds, LLC (“LCEDC Builds”), a for-profit subsidiary, which has a 99.995% ownership interest in Lucas County Builds, LLC (“LCB”) and is engaged in providing financing to companies and real estate development projects in Lucas County.

Basis of Presentation

LCEDC has established Northwest Ohio Improvement Fund, LLC, a wholly-owned for-profit subsidiary engaged in providing financing to companies and real estate development projects in Northwest Ohio. The Toledo-Lucas County Port Authority is the primary beneficiary of the activities conducted by this entity. There were no financial activities related to Northwest Ohio Improvement Fund, LLC in 2016 and 2015.

In addition, LCEDC has also established Lucas County Commercial Redevelopment, LLC (“Commercial Redevelopment”), a wholly-owned not-for-profit subsidiary engaged in land redevelopment. In 2016, Commercial Redevelopment obtained a .005% ownership interest in LCB.

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

Recently Issued Accounting Standards

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

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies - continued

Net Asset Classifications

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

- Unrestricted net assets – Unrestricted net assets represent funds which are fully available, at the discretion of management and the Board of Directors, for the Corporation to utilize in any of its programs or supporting services.
- Temporarily restricted net assets – Temporarily restricted net assets are comprised of funds which are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Corporation. The Corporation does not have any temporarily restricted net assets at December 31, 2016 and 2015.
- Permanently restricted net assets – Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity but permit the Corporation to expend all or part of the income derived from the donated assets. The Corporation does not have any permanently restricted net assets at December 31, 2016 and 2015.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated by the straight line method over the estimated useful lives of the equipment ranging from 3 to 7 years. Depreciation expense for the years ended December 31, 2016 and 2015 is \$3,773 and \$3,810, respectively.

Investments

The Corporation has investments in two limited liability companies which are recorded using the equity method of accounting. The Corporation has an investment in one limited liability company which is recorded using the cost method of accounting (see Note 3).

Notes Receivable

Notes receivable are stated at the unpaid principal balance, less an allowance for loan losses and net deferred loan origination fees, 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 term of the loan.

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

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies – continued

Notes Receivable - continued

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. There was no activity in the allowance for loan losses in 2016.

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, 2016.

There were no changes in the Corporations 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.

Concentration of Revenue and Credit Risk

Substantially all 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 two 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, 2016 and 2015.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies – continued

Revenue Recognition - continued

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

Funds Held on Behalf of Other Parties

In 2016, funds held on behalf of other parties includes funds advanced from two companies who are in the process of purchasing an interest in LCB. This deposit will be converted to equity once an operating agreement is executed in 2017. In 2015, funds held on behalf of other parties included amounts due to Lucas County from the sale of property.

Deferred Revenue

Deferred revenue includes \$10,000 of loan origination fees received on a loan that has not closed as of December 31, 2016. These fees will offset the related note receivable when the loan is funded in 2017. The Corporation received a loan origination fee of \$15,000 which offsets direct costs incurred related to the loan and have been netted in the accompanying financial statements.

Use of Estimates

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

Income Taxes

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

The Corporation has evaluated the guidelines related to uncertain tax positions and has concluded that the Corporation has no significant financial statement exposure to uncertain tax positions at December 31, 2016 and 2015. The Corporation's federal income tax returns for the years subsequent to 2012 remain subject to examination by the Internal Revenue Service.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies – continued

Functional Expenses

The Corporation has program expenses that relate to providing certain services under various grants. Certain costs not directly attributable to specific program services have been allocated between program and management and general expenses. The functional classification of expenses for the year ended December 31, 2016 and 2015 is:

	<u>2016</u>	<u>2015</u>
Program	\$ 357,601	\$ 1,260,089
Management and general	<u>48,125</u>	<u>71,311</u>
	<u>\$ 405,726</u>	<u>\$ 1,331,400</u>

Subsequent Events

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2016 financial statements through the date of the report which is the date the financial statements are available to be issued.

Reclassifications

Certain reclassifications have been made to the December 31, 2015 financial statement presentation to conform to the current year's presentation.

2. Investment Property Held For Sale

In 2014, the Corporation received a contribution from Lucas County to fund the purchase of a downtown Toledo building held for investment, which is still held at December 31, 2016. In 2015, the Corporation received property from Lucas County which was subsequently sold and has been reflected as contribution revenue in the 2015 financial statements.

3. Investment in Limited Liability Companies

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

Through Manager, the Corporation is assisting in the financing and administration of the Hensville new market and state tax credit real estate development project. Hensville consists of the redevelopment and rehabilitation of 77,000 square feet of restaurant/event, office and retail space in three historical buildings adjacent to the Toledo Mud Hens Ballpark which was completed in April 2016.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

3. Investment in Limited Liability Companies - continued

As a part of the financing, Manager owns a non-controlling 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 6).

Investments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Hensville Improvements, LLC	\$ 10,839,190	\$ 4,241,372
Rocket Ventures Fund, LLC, 1.7% interest	24,187	22,357
Hensville Master Tenant, LLC, 1% interest	<u>9,829</u>	<u>9,829</u>
Total investments	<u>\$ 10,873,206</u>	<u>\$ 4,273,558</u>

Summarized financial information of Improvements as of December 31, 2016 and 2015 and for the years ended is as follows:

	<u>2016</u>	<u>2015</u>
Total assets	<u>\$ 20,084,692</u>	<u>\$ 14,603,561</u>
Liabilities	\$ 8,959,891	\$ 10,198,324
Members' equity	<u>11,124,801</u>	<u>4,405,237</u>
	<u>\$ 20,084,692</u>	<u>\$ 14,603,561</u>
Revenue	\$ 608,159	\$ 7,830
Expenses	<u>635,459</u>	<u>103,955</u>
Net loss	<u>\$ (27,300)</u>	<u>\$ (96,125)</u>

4. Notes Receivable

In 2016, the Corporation advanced \$750,000 to a local development organization to fund (1) the construction of a manufacturing facility expansion for a third party and (2) the related purchase of equipment for the manufacturing facility. Under the terms of the note, the Corporation will receive monthly payments of \$4,094 including interest at 2.5% beginning September 2017 through December 2028. The note matures on December 31, 2028 with a balloon payment of \$355,858.

Also, in 2016, the Corporation agreed to loan up to \$1,000,000 to a local company to fund the construction of a building and related improvements. Under the terms of the note, the Corporation will receive interest only payments at 3% of the unpaid principal balance for the first six months after funding the loan. After the interest only period, a final loan repayment schedule will be compiled and the loan matures in November 2026. As of December 31, 2016, the Corporation has not advanced any monies under the note.

In 2015, the Corporation collected \$12,875 under another note receivable.

Lucas County Economic Development Corporation

Notes to Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

5. Accrued Liabilities

Accrued liabilities at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Interest	\$ 350,322	\$ 53,077
Real estate taxes	12,108	12,108
	<u>\$ 362,430</u>	<u>\$ 65,185</u>

6. Long-Term Debt

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

At December 31, 2016, the Mud Hens advanced \$10,849,019 to Manager as part of Hensville (\$4,251,201 at December 31, 2015). Interest on the Note accrues at 3.25% and is due quarterly. Interest is only paid out of 99% of available cash flow as defined in the Note. Principal payments begin in June 2017 and are limited to 99% of available cash flow less interest costs.

Lucas County Economic Development Corporation

Consolidating Statement of Financial Position

December 31, 2016

	Lucas County Economic Development Corporation	Hensville Improvements Manager, LLC	Lucas County Commercial Redevelopment, LLC/ LCEDC Builds, LLC	Consolidating Adjustments	Consolidated
Assets					
Cash	\$ 4,411	\$ 213	\$ 2,315,585	\$ -	\$ 2,320,209
Accounts receivable	40,133	-	-	(40,133) (A)	-
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>34,518</u>
Less accumulated depreciation	30,445	-	-	-	30,445
	<u>4,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,073</u>
Other assets:					
Investment in limited liability companies	2,524,187	10,849,019	-	(2,500,000) (B)	10,873,206
Investment property held for sale	1,392,413	-	-	-	1,392,413
Notes receivable	-	-	750,000	-	750,000
Land held for sale	450	-	-	-	450
	<u>3,917,050</u>	<u>10,849,019</u>	<u>750,000</u>	<u>(2,500,000)</u>	<u>13,016,069</u>
Total assets	<u>\$ 3,965,667</u>	<u>\$ 10,849,232</u>	<u>\$ 3,065,585</u>	<u>\$ (2,540,133)</u>	<u>\$ 15,340,351</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 6,237	\$ 14,809	\$ 40,133	\$ (40,133) (A)	\$ 21,046
Accrued liabilities	12,108	350,322	-	-	362,430
Funds held on behalf of other parties	-	-	545,605	-	545,605
Deferred revenue	-	-	10,000	-	10,000
Long-term debt	-	10,849,019	-	-	10,849,019
Total liabilities	<u>18,345</u>	<u>11,214,150</u>	<u>595,738</u>	<u>(40,133)</u>	<u>11,788,100</u>
Net assets - unrestricted	<u>3,947,322</u>	<u>(364,918)</u>	<u>2,469,847</u>	<u>(2,500,000) (B)</u>	<u>3,552,251</u>
Total liabilities and net assets	<u>\$ 3,965,667</u>	<u>\$ 10,849,232</u>	<u>\$ 3,065,585</u>	<u>\$ (2,540,133)</u>	<u>\$ 15,340,351</u>

(A) - To eliminate intercompany accounts receivable and payable.

(B) - To eliminate investment in subsidiary.

Lucas County Economic Development Corporation

Consolidating Statement of Activities

Year Ended December 31, 2016

	Lucas County Economic Development Corporation	Hensville Improvements Manager, Inc.	Lucas County Commercial Redevelopment, LLC/ LCEDC Builds, LLC	Consolidating Adjustments	Consolidated
Revenues:					
Contributions from Lucas County	\$ 2,525,000	\$ -	\$ -	\$ -	\$ 2,525,000
Income related to investment in limited liability companies	1,830	-	-	-	1,830
Miscellaneous income	666	-	-	-	666
	<u>2,527,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,527,496</u>
Expenses:					
Interest	-	297,245	-	-	297,245
Professional fees	33,611	14,596	30,153	-	78,360
Real estate taxes	24,217	-	-	-	24,217
Depreciation	3,773	-	-	-	3,773
Utilities	961	-	-	-	961
Professional liability insurance	450	-	-	-	450
Outside services	437	-	-	-	437
Office supplies	83	-	-	-	83
Dues and subscriptions	200	-	-	-	200
Total expenses	<u>63,732</u>	<u>311,841</u>	<u>30,153</u>	<u>-</u>	<u>405,726</u>
Change in net assets	2,463,764	(311,841)	(30,153)	-	2,121,770
Net assets at beginning of year	1,483,558	(53,077)	-	-	1,430,481
Contributions	<u>-</u>	<u>-</u>	<u>2,500,000</u>	<u>(2,500,000) (B)</u>	<u>-</u>
Net assets at end of year	<u>\$ 3,947,322</u>	<u>\$ (364,918)</u>	<u>\$ 2,469,847</u>	<u>\$ (2,500,000)</u>	<u>\$ 3,552,251</u>

(B) - To eliminate 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, 2016 and 2015, 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 June 14, 2017.

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
June 14, 2017

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Dave Yost • Auditor of State

LUCAS COUNTY ECONOMIC DEVELOPMENT CORPORATION

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 20, 2017**