

**LUCAS COUNTY ECONOMIC  
DEVELOPMENT CORPORATION**

Consolidated Financial Statements and  
Supplemental Information

Years Ended December 31, 2017 and 2016

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, 2017 through December 31, 2017. 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

August 1, 2018

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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, 2017 and 2016, 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, 2017 and 2016, 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 16-19 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 27, 2018, 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  
June 27, 2018



**Lucas County Economic Development Corporation**

**Consolidated Statements of Financial Position**

**December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash	\$ 1,846,197	\$ 2,320,209
Notes receivable:		
Notes	1,855,737	740,000
Interest	8,155	-
	1,863,892	740,000
Property and equipment:		
Equipment and software	14,971	14,971
Furniture and fixtures	19,547	19,547
	34,518	34,518
Less accumulated depreciation	32,705	30,445
	1,813	4,073
Other assets:		
Investment in limited liability companies	7,776,847	10,873,206
Investment properties held for sale	1,462,133	1,392,863
Deferred costs	30,418	-
Deposits	11,000	-
	9,280,398	12,266,069
Total assets	<b>\$ 12,992,300</b>	<b>\$ 15,330,351</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Notes payable	\$ 5,276,251	\$ 10,849,019
Accounts payable	7,937	21,046
Accrued liabilities	564,460	362,430
Funds held on behalf of other parties	-	545,605
Total liabilities	5,848,648	11,778,100
Net assets - unrestricted:		
Controlling interests	6,404,348	3,552,251
Noncontrolling interests	739,304	-
Total net assets	7,143,652	3,552,251
Total liabilities and net assets	<b>\$ 12,992,300</b>	<b>\$ 15,330,351</b>

See accompanying notes.

**Lucas County Economic Development Corporation**

**Consolidated Statements of Activities**

**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>		
Contributions from Lucas County	\$ 257,500	\$ 2,525,000
Interest income	22,800	-
Miscellaneous	10	666
Income related to investment in limited liability companies	<u>3,002,151</u>	<u>1,830</u>
	3,282,461	2,527,496
<b>Expenses:</b>		
Interest	201,570	297,245
Professional fees	153,358	78,360
Management fees	30,846	-
Real estate taxes	24,493	24,217
Expired options	13,750	-
Professional liability insurance	6,473	450
Depreciation	2,260	3,773
Miscellaneous	1,223	-
Utilities	1,014	961
Bank fees	710	-
Outside services	397	437
Telephone and internet	271	-
Office supplies	200	83
Dues and subscriptions	100	200
Total expenses	<u>436,665</u>	<u>405,726</u>
<b>Change in net assets for consolidated group</b>	2,845,796	2,121,770
Net loss of noncontrolling interests	<u>6,301</u>	<u>-</u>
<b>Change in net assets of Lucas County Economic Development Corporation</b>	<u><u>\$ 2,852,097</u></u>	<u><u>\$ 2,121,770</u></u>

See accompanying notes.

**Lucas County Economic Development Corporation**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2017 and 2016**

	<u>Unrestricted Net Assets</u>		<u>Total</u>
	<u>Controlling Interests</u>	<u>Noncontrolling Interests</u>	
Balance at December 31, 2015	\$ 1,430,481	\$ -	\$ 1,430,481
Change in net assets	<u>2,121,770</u>	<u>-</u>	<u>2,121,770</u>
Balance at December 31, 2016	3,552,251	-	3,552,251
Change in net assets	2,852,097	(6,301)	2,845,796
Capital contributions	<u>-</u>	<u>745,605</u>	<u>745,605</u>
Balance at December 31, 2017	<u>\$ 6,404,348</u>	<u>\$ 739,304</u>	<u>\$ 7,143,652</u>

See accompanying notes.

**Lucas County Economic Development Corporation**

**Consolidated Statements of Cash Flows**

**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash flows from operating activities:</b>		
Change in net assets	\$2,845,796	\$2,121,770
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,260	3,773
Income related to investment in limited liability companies	(3,002,151)	(1,830)
Changes in assets and liabilities:		
Interest receivable	(8,155)	-
Deferred costs	(30,418)	-
Deposits	(11,000)	-
Accounts payable	(13,109)	12,039
Accrued liabilities	202,030	297,245
Deferred revenue	-	10,000
Net cash provided by (used in) operating activities	(14,747)	2,442,997
<b>Cash flows from investing activities:</b>		
Additional investment in limited liability companies	(47,954)	(6,597,818)
Distribution from limited liability companies	6,146,464	-
Advances under notes receivable	(1,109,555)	(750,000)
Costs incurred related to investment properties	(69,270)	-
Increase in deferred loan costs - net	(16,339)	-
Payments received on note receivable	10,157	-
Net cash provided by (used in) investing activities	4,913,503	(7,347,818)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	500,000	6,597,818
Payments on notes payable	(6,072,768)	-
Capital contributions	200,000	-
Funds held on behalf of other parties	-	434,398
Net cash provided by (used in) financing activities	(5,372,768)	7,032,216
Net increase (decrease) in cash	(474,012)	2,127,395
Cash at beginning of year	2,320,209	192,814
Cash at end of year	\$1,846,197	\$2,320,209
<b>Supplemental non cash investing and finance activities:</b>		
Funds held on behalf of other parties obligation exchanged for membership interests	\$ 545,605	\$ -

See accompanying notes.

# **Lucas County Economic Development Corporation**

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **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. Except for equity investments in Lucas County Builds, LLC (“LCB”) 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, (“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). In 2016, LCEDC formed LCEDC Builds, LLC (“LCEDC Builds”), a wholly-owned for-profit subsidiary, which has a controlling ownership interest in LCB. LCB is engaged in providing primarily debt financing to companies and economic development projects in Lucas County (see Note 2).

#### **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.

LCEDC has established Northwest Ohio Improvement Fund, LLC (“NOIF”), 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. In 2017, the Corporation’s membership interest was effectively assigned to the Toledo-Lucas County Port Authority.

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 which was effectively assigned to LCEDC Builds in 2017.

# Lucas County Economic Development Corporation

## Notes to Consolidated Financial Statements

December 31, 2017 and 2016

### 1. Summary of Significant Accounting Policies - continued

#### Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The provisions of this standard are effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Corporation has not adopted this accounting standard and has not yet determined the effect of this pronouncement on its 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:

- 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, 2017 and 2016.
- 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, 2017 and 2016.

#### 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, 2017 and 2016 is \$2,260 and \$3,773, respectively.

#### Investments

The Corporation has an investment in a limited liability company which is recorded using the equity method of accounting. The Corporation has two investments in two Hensville-related entities (see Note 3) which are recorded using the equity method of accounting. In 2016, one of the Hensville-related entities was recorded at cost. The effect of the change in method of accounting in 2017 on this investment does not have a material effect on the Corporation's financial statements.

# **Lucas County Economic Development Corporation**

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **1. Summary of Significant Accounting Policies – continued**

#### **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, 2017 and 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, 2017 and 2016.

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.

#### **Concentration of Revenue and Other Risks**

Substantially all cash support (and revenue in 2016) to the Corporation is provided by Lucas County. A significant reduction in the level of support could have a significant effect on the Corporation's programs and/or financial viability.

# **Lucas County Economic Development Corporation**

## **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

### **1. Summary of Significant Accounting Policies – continued**

#### **Concentration of Revenue and Other Risks - continued**

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, 2017 and 2016.

#### **Funds Held on Behalf of Other Parties**

In 2016, funds held on behalf of other parties includes funds advanced from two companies who were in the process of purchasing an interest in LCB. In 2017, LCB satisfied this obligation through the issuance of membership interests (See Note 7).

#### **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, 2017 and 2016. The Corporation's federal income tax returns for the years subsequent to 2013 remain subject to examination by the Internal Revenue Service.



**Lucas County Economic Development Corporation**

**Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

**1. Summary of Significant Accounting Policies – continued**

**Functional Expenses**

The Corporation has program expenses that relate to providing certain program services. 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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Program	\$ 338,813	\$ 357,601
Management and general	<u>97,852</u>	<u>48,125</u>
	<u>\$ 436,665</u>	<u>\$ 405,726</u>

**Subsequent Events**

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2017 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 2016 financial statements to conform to the 2017 financial statement presentation.

**2. Notes Receivable**

Notes receivable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Note receivable from Toledo-Lucas County Port Authority, interest at 2.5%, monthly payments of \$4,094, including interest through December 2028 (Dana)	\$ 739,843	\$ 750,000
Note receivable from Old Central, Inc., interest at 3%, semi-annual payments of \$17,969 beginning upon project completion in 2018 with maturity in November 2026 (Overland Industrial Park)	609,555	-
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	-
Deferred fees and costs - net	<u>6,339</u>	<u>(10,000)</u>
	<u>\$ 1,855,737</u>	<u>\$ 740,000</u>

## **Lucas County Economic Development Corporation**

### **Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

#### **2. Notes Receivable - continued**

In 2016, LCB advanced \$750,000 to a local developer 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. Also, in 2016, LCB agreed to loan up to \$1,000,000 to a local company to fund the construction of a building and related improvements. At December 31, 2017, the balance outstanding under this loan is \$609,555. 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 6).

As discussed in Note 1, there is no allowance for loan losses at December 31, 2017 and 2016. At December 31, 2017, LCB has loan commitments and undrawn portions of development loans that total \$390,445. LCB made an additional advance under this note of \$367,927 in February 2018. Since certain commitments to fund loans may expire without being used, the amount does not necessarily represent future cash commitments.

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 \$1,849,398 and are due as follows: 2018 - \$30,392; 2019 - \$62,975; 2020 - \$63,932; 2021 - \$64,876; 2022 - \$65,953; 2023 and future - \$1,561,270.

#### **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.

As a part of the financing, 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 6).

**Lucas County Economic Development Corporation**

**Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

**3. Investment in Limited Liability Companies - continued**

Investments in limited liability companies at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Hensville Improvements, LLC	\$ 7,713,211	\$ 10,839,190
Hensville Master Tenant, LLC, 1% interest	40,076	9,829
Rocket Ventures Fund, LLC, 1.7% interest	<u>23,560</u>	<u>24,187</u>
Total investments	<u>\$ 7,776,847</u>	<u>\$ 10,873,206</u>

Summarized financial information of Improvements as of December 31, 2017 and 2016 and for the years ended is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 23,065,694</u>	<u>\$ 20,084,692</u>
Liabilities	\$ 8,991,476	\$ 9,055,083
Members' equity	<u>13,776,969</u>	<u>11,029,609</u>
	<u>\$ 22,768,445</u>	<u>\$ 20,084,692</u>
Revenue	\$ 809,382	\$ 607,037
Expenses	69,250	61,042
Other income (loss)	<u>2,248,835</u>	<u>(573,295)</u>
Net income (loss)	<u>\$ 2,988,967</u>	<u>\$ (27,300)</u>

A significant amount of Improvement's 2017 net income (\$2,924,984) is from the sale of historic tax credits and is included in other income (loss).

**4. Accrued Liabilities**

Accrued liabilities at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Interest	\$ 551,892	\$ 350,322
Real estate taxes	<u>12,568</u>	<u>12,108</u>
	<u>\$ 564,460</u>	<u>\$ 362,430</u>

**5. Investment Properties Held for Sale**

At December 31, 2017 and 2016, LCEDC had two properties held for sale with a recorded value of \$1,462,133 and \$1,392,863, respectively. Expenses incurred for managing and maintaining investment properties held for sale, including insurance, utilities, maintenance and real estate taxes amounted to \$26,461 and \$25,176 for the years ended December 31, 2017 and 2016, respectively.

**Lucas County Economic Development Corporation**

**Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

**5. Investment Properties Held for Sale - continued**

In July 2017, LCEDC entered into a long-term lease with a local developer for one of the investment properties. The property is expected to be developed into a full service national franchised hotel. The lease is expected to commence after the satisfaction of various contingencies by both parties and is for the term of five years. After an initial rent free period, the lease requires base rent based on the monthly debt service cost of bonds and notes issued by Lucas County related to this project. Upon expiration of the lease, the lessee is required to purchase the property at a price defined in the agreement or pay a \$500,000 lease termination fee. If the lessee purchases the property, LCEDC will provide \$1,000,000 in financing over a term of twenty years at 4.5%.

**6. Notes Payable**

Notes payable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Note payable to Toledo Mud Hens Baseball Club, interest payable quarterly at 3.25%	\$ 4,776,251	\$ 10,849,014
Note payable to Toledo-Lucas County Port Authority, interest only payments due monthly at 2.5%, due June 2024	<u>500,000</u>	<u>-</u>
	<u>\$ 5,276,251</u>	<u>\$ 10,849,014</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.

In June 2017, the Corporation borrowed \$500,000 under a note payable with Toledo-Lucas County Port Authority which was used to assist in funding a tax credit (see Note 2).

In December 2017, the Corporation executed a non-interest bearing \$250,000 line of credit which the Corporation can draw down on a project-by-project basis. The line of credit is due December 2022 and no borrowings were made as of December 31, 2017.

**7. Members’ Equity**

In April 2017, funds previously advanced to LCB and held on deposit were used to purchase membership interests. In December 2017, membership interests were adjusted with additional capital contributions and membership interests issued. The net loss for 2017 has been allocated based on the weighted average days of ownership of the membership interests. The liability of the LCB’s Members is limited to the total capital contributions. At December 31, 2017, the one of the Members is required to contribute \$200,000 to fulfill its capital contribution of \$400,000. In February 2018, the Member contributed \$100,000.

**Lucas County Economic Development Corporation**

**Notes to Consolidated Financial Statements**

**December 31, 2017 and 2016**

**7. Members' Equity - continued**

As a result of the additional members, LCEDC Builds ownership of LCB changed during 2017 as follows:

Ownership at December 31, 2016	100.00 %
Sale of membership interests	(19.25)
Additional contributed capital	<u>(8.19)</u>
Ownership at December 31, 2017	<u>72.56 %</u>

**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.

## **SUPPLEMENTAL INFORMATION**

**Lucas County Economic Development Corporation**

**Consolidating Statement of Financial Position**

**December 31, 2017**

	Lucas County Economic Development Corporation	Hensville Improvements Manager, LLC	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
<b>Assets</b>						
Cash	\$ 26,370	\$ 117	\$ -	\$ 1,819,710	\$ -	\$ 1,846,197
Notes receivable	-	-	-	1,855,737	-	1,855,737
Interest receivable	-	-	-	8,155	-	8,155
Property and equipment:						
Equipment and software	14,971	-	-	-	-	14,971
Furniture and fixtures	19,547	-	-	-	-	19,547
	34,518	-	-	-	-	34,518
Less accumulated depreciation	32,705	-	-	-	-	32,705
	1,813	-	-	-	-	1,813
Other assets:						
Investment in limited liability companies	23,560	7,753,287	2,430,652	-	(2,430,652) (A)	7,776,847
Investment property held for sale	1,462,133	-	-	-	-	1,462,133
Deferred costs	30,418	-	-	-	-	30,418
Deposits	11,000	-	-	-	-	11,000
	1,527,111	7,753,287	2,430,652	-	(2,430,652)	9,280,398
<b>Total assets</b>	<b>\$ 1,555,294</b>	<b>\$ 7,753,404</b>	<b>\$ 2,430,652</b>	<b>\$ 3,683,602</b>	<b>\$ (2,430,652)</b>	<b>\$ 12,992,300</b>
<b>Liabilities and Net Assets</b>						
<b>Liabilities:</b>						
Notes payable	\$ -	\$ 4,776,251	\$ -	\$ 500,000	\$ -	\$ 5,276,251
Accounts payable	627	-	-	7,310	-	7,937
Accrued liabilities	12,568	545,556	-	6,336	-	564,460
<b>Total liabilities</b>	<b>13,195</b>	<b>5,321,807</b>	<b>-</b>	<b>513,646</b>	<b>-</b>	<b>5,848,648</b>
<b>Net assets - unrestricted:</b>						
Controlling interests	1,542,099	2,431,597	2,430,652	2,430,652	(2,430,652) (A)	6,404,348
Noncontrolling interests	-	-	-	739,304	-	739,304
	1,542,099	2,431,597	2,430,652	3,169,956	(2,430,652)	7,143,652
<b>Total liabilities and net assets</b>	<b>\$ 1,555,294</b>	<b>\$ 7,753,404</b>	<b>\$ 2,430,652</b>	<b>\$ 3,683,602</b>	<b>\$ (2,430,652)</b>	<b>\$ 12,992,300</b>

(A) - To eliminate investment in subsidiary.

## Lucas County Economic Development Corporation

### Consolidating Statement of Activities

Year Ended December 31, 2017

	Lucas County Economic Development Corporation	Hensville Improvements Manager, Inc.	LCEDC Builds, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Contributions from Lucas County	\$ 257,500	\$ -	\$ -	\$ -	\$ -	\$ 257,500
Income (loss) related to investment in limited liability companies	(627)	3,002,778	(69,348)	-	69,348 (B)	3,002,151
Interest income	-	-	-	22,800	-	22,800
Miscellaneous income	10	-	-	-	-	10
	<u>256,883</u>	<u>3,002,778</u>	<u>(69,348)</u>	<u>22,800</u>	<u>69,348</u>	<u>3,282,461</u>
<b>Expenses:</b>						
Interest	-	195,234	-	6,336	-	201,570
Professional fees	111,440	10,824	-	31,094	-	153,358
Management fees	-	-	-	30,846	-	30,846
Real estate taxes	24,493	-	-	-	-	24,493
Expired options	13,750	-	-	-	-	13,750
Insurance	6,473	-	-	-	-	6,473
Depreciation	2,260	-	-	-	-	2,260
Miscellaneous	1,018	205	-	-	-	1,223
Utilities	1,014	-	-	-	-	1,014
Bank fees	690	-	-	20	-	710
Outside services	397	-	-	-	-	397
Telephone and internet	271	-	-	-	-	271
Office	200	-	-	-	-	200
Dues and subscriptions	100	-	-	-	-	100
Total expenses	<u>162,106</u>	<u>206,263</u>	<u>-</u>	<u>68,296</u>	<u>-</u>	<u>436,665</u>
<b>Change in net assets</b>	94,777	2,796,515	(69,348)	(45,496)	69,348	2,845,796
Net assets at beginning of year	1,447,322	(364,918)	2,500,000	2,469,847	(2,500,000) (A)	3,552,251
Capital contributions	-	-	-	745,605	-	745,605
Net assets at end of year	<u>\$ 1,542,099</u>	<u>\$ 2,431,597</u>	<u>\$ 2,430,652</u>	<u>\$ 3,169,956</u>	<u>\$ (2,430,652)</u>	<u>\$ 7,143,652</u>

(A) - To eliminate investment in subsidiary.

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



## Lucas County Economic Development Corporation

### Consolidating Statement of Financial Position

December 31, 2016

	Lucas County Economic Development Corporation/LCEDC Builds, LLC	Hensville Improvements Manager, LLC	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
<b>Assets</b>					
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>
<b>Total assets</b>	<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>
<b>Liabilities and Net Assets</b>					
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
<b>Total liabilities</b>	<u>18,345</u>	<u>11,214,150</u>	<u>595,738</u>	<u>(40,133)</u>	<u>11,788,100</u>
<b>Net assets - unrestricted</b>	<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>
<b>Total liabilities and net assets</b>	<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/LCEDC Builds, LLC	Hensville Improvements Manager, Inc.	Lucas County Builds, LLC	Consolidating Adjustments	Consolidated
<b>Revenues:</b>					
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>
<b>Expenses:</b>					
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>
<b>Change in net assets</b>	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, 2017 and 2016, 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 27, 2018.

### **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 27, 2018



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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  
AUGUST, 14 2018**