ERIE COUNTY LAND REUTILIZATION CORPORATION
ERIE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2017-2016

Dave Yost • Auditor of State

ERIE COUNTY LAND REUTILIZATION CORPORATION
ERIE COUNTY

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INDEPENDENT AUDITOR'S REPORT

Erie County Land Reutilization Corporation
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5554

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Erie County Land Reutilization Corporation, Erie County, Ohio (the Corporation), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the Corporation prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Revised Code Section 1724.05 requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Erie County Land Reutilization Corporation as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 the Corporation's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

October 23, 2018

Erie County Land Reutilization Corporation
Erie County

Statement of Receipts, Disbursements and
Changes in Fund Balance (Cash Basis)
General Fund
For the Year Ended December 31, 2017

Cash Receipts	
Grants	$202,522
Property Sales	8,286
Total Cash Receipts	210,808
Cash Disbursements	
Current:	
Accounting & Legal	42,387
Auditor Deed Fees	180
Bank Fees	112
Closing Costs	887
Demolition Expense	119,735
General Insurance	2,257
Postage	51
Property Maintenance Expense	31,425
Miscellaneous Property Expense	12,474
NIP Grant Expense	8,481
Title Fees	600
Vehicle Expense	85
Land	17,458
Total Cash Disbursements	236,132
Net Change in Fund Cash Balance	(25,324)
Fund Cash Balance, January 1	63,267
Fund Cash Balance, December 31	
Unassigned	37,943
Fund Cash Balance, December 31	$37,943

The notes to the financial statements are an integral part of this statement.

Note 1 – Reporting Entity

The Erie County Land Reutilization Corporation, Erie County, Ohio (the Corporation) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Corporation was organized as a not-for profit community improvement corporation by the Board of County Commissioners of Erie County October 20, 2011, under the authority granted under Chapter 1724 of the Ohio Revised Code. The Corporation's purpose is to promote and facilitate the reclamation, rehabilitation and reutilization of vacant, abandoned, tax-foreclosed or other real property in Erie County. By strategically acquiring properties and returning them to productive use, the Corporation works to reduce blight, increase property values, strengthen neighborhoods, and improve the quality of life for all Erie County residents.

A seven-member Board of Directors (the Board) directs the Corporation. The Board consists of the County Treasurer, two members of the Board of County Commissioners of Erie County, a representative of the largest municipality in Erie County, a representative of a Township with more than 10,000 residents located within Erie County, and two additional members selected by consensus of the Treasurer and the two County Commissioners.

The Corporation's management believes this financial statement presents all activities for which the Corporation is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Corporation's financial statements consist of a statement of receipts, disbursements and changes in fund balance (cash basis) for the General Fund.

Fund Accounting

The Corporation uses one fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The fund of the Corporation is presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Corporation for any purpose provided it is expended or transferred according to the general laws of Ohio.

Basis of Accounting

Although required by Ohio Revised Code § 1724.05 to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the Corporation chooses to prepare its financial statement follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in this financial statement.

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Capital Assets

The Corporation records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Entity must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

> ***Nonspendable*** The Corporation classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.
>
> ***Restricted*** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
>
> ***Committed*** Governing Board can *commit* amounts via formal action (resolution). The Corporation must adhere to these commitments unless the Governing Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.
>
> ***Assigned*** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Corporation Governing Board or a Corporation official delegated that authority by resolution, or by State Statute.
>
> ***Unassigned*** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Corporation applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Compliance

Ohio Revised Code § 1724.05, requires the Corporation to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). However, the Corporation prepared its financial statement on the regulatory basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Note 4 – Deposits

The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	2017
Demand deposits	$37,943

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 5 – Risk Management

Commercial Insurance

The Corporation is subject to certain types of risk in the performance of its normal functions. The Corporation has obtained commercial insurance covering comprehensive property and general liability risks.

Note 6 – Contingencies

The Corporation received financial assistance from state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Erie County Land Reutilization Corporation
Erie County

Statement of Receipts, Disbursements and
Changes in Fund Balance (Cash Basis)
General Fund
For the Year Ended December 31, 2016

Cash Receipts	
Property Taxes	$8,386
Grants	163,747
Property Sales	8,200
Total Cash Receipts	180,333
Cash Disbursements	
Current:	
Accounting & Legal	16,828
Auditor Expense	3,813
Auditor Deed Fees	135
Bank Fees	48
Demolition Expense	142,938
Direct Deposit Expense	32
General Insurance	2,360
Payroll Taxes	2,501
Postage	44
Property Maintenance Expense	30,404
Miscellaneous Property Expense	9,671
Grant Application Expense	2,000
Seminars	310
Title Fees	300
Taxes	25
Travel	42
Wages	32,692
Total Cash Disbursements	244,143
Net Change in Fund Cash Balance	(63,810)
Fund Cash Balance, January 1	127,077
Fund Cash Balance, December 31	
Unassigned	63,267
Fund Cash Balance, December 31	$63,267

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Note 3 – Compliance

Ohio Revised Code § 1724.05, requires the Corporation to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). However, the Corporation prepared its financial statement on the regulatory basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	2016
Demand deposits	$63,267

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The Corporation is subject to certain types of risk in the performance of its normal functions. The Corporation has obtained commercial insurance covering comprehensive property and general liability risks.

Note 6 – Contingencies

The Corporation received financial assistance from state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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

Erie County Land Reutilization Corporation
Erie County
2900 Columbus Avenue
Sandusky, Ohio 44870-5554

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Erie County Land Reutilization Corporation, Erie County, Ohio (the Corporation) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018, wherein we issued an adverse opinion on the Corporation's financial statements because the Corporation did not follow accounting principles generally accepted in the United States of America as required by Ohio Revised Code Section 1724.05.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Corporation's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Corporation's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exits. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

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Compliance and Other Matters

As part of reasonably assuring whether the Corporation'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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Corporation*'s Response to Findings*

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Corporation's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

October 23, 2018

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2017-001

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 1724.05 provides, in part, that the Corporation shall prepare an annual financial report that is prepared according to generally accepted accounting principles (GAAP).

As cost savings measure, the Corporation prepared financial statements in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumably material, cannot be determined at this time.

Failure to report on a GAAP basis compromises the Corporation's ability to evaluate and monitor the overall financial condition of the Corporation. To help provide the users with more meaningful financial statements, the Corporation should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response

Even though the Corporation is entering its sixth full year of operation there is still no dedicated funding source to sustain our operations. We rely solely on property sales and Grant administration. Additionally, in our brief history, we do not generate a significant number of financial transactions in any given calendar year nor do we have a large cash reserve to fall back on. In light of these factors the Corporation has determined that continuing to file on a regulatory basis for the audited time period provides the most cost effective alternative while still providing sufficient information regarding the Corporation's activities. The Corporation understands this requirement, but feels that there are no financial and/or cost benefits to converting to generally accepted accounting principles.

FINDING NUMBER 2017-002

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The following misstatements were noted in the financial statements resulting in audit adjustments:

- Contracted services for the Administrator's pay (no longer an employee) were incorrectly reported as wages in 2017 for $36,335 and in 2016 for $12,319.
- Land purchases plus fees of $17,643, in 2017, were omitted from the financial statements.

The accompanying financial statements were adjusted to correct these errors. Additional errors were noted in smaller relative amounts ranging from $186 to $5,999. These errors were not identified and correct by management prior to completing the annual report due to deficiencies in internal controls over financial reporting. The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities.

To help ensure the Corporation's financial statements and notes to the statements are complete and accurate, the Corporation should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the Board, to identify and correct errors and omissions.

Officials' Response:

These issues have been brought to the attention of the Corporation's contracted Accounting firm. They have made note of the Auditor of State's reporting requirements and will look to fully comply with the stated requirements in the future.

Erie County Land Reutilization Corporation

2900 Columbus Avenue, Room 344 Sandusky, OH 44870
419.624.6894

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding first reported in 2012. Ohio Rev. Code § 1724.05 and material weakness for reporting on a basis other than generally accepted accounting principles.	Not Corrected. Repeated in this report as finding number 2017-001.	The Corporation has determined that continuing to file on a regulatory basis provides the most cost effective alternative while still providing sufficient information regarding the Corporation's activities.
2015-002	Material weakness over financial reporting errors.	Not Corrected. Repeated in this report as finding number 2017-002.	These issues of financial reporting were due to omitting amounts from the financial statements. These have been brought to the attention of the Corporation's contracted Accounting firm. They have made note of the reporting requirement and will fully comply in the future.

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Dave Yost • Auditor of State

ERIE COUNTY LAND REUTILIZATION CORPORATION

ERIE 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, 2018

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