



Dave Yost • Auditor of State



**SHAKER HEIGHTS DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY  
DECEMBER 31, 2016 AND 2015**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Shaker Heights Development Corporation  
Cuyahoga County  
3400 Lee Road  
Shaker Heights, Ohio 44120

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Shaker Heights Development Corporation, Cuyahoga County, Ohio (the Corporation), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Shaker Heights Development Corporation, Cuyahoga County, Ohio, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2017, 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**  
Auditor of State  
Columbus, Ohio

August 23, 2017

# Shaker Heights Development Corporation

## Management's Discussion and Analysis

### For the Years Ended December 31, 2016 and 2015 (Unaudited)

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This discussion and analysis, along with the accompanying financial report, of the Shaker Heights Development Corporation (the "Corporation") is designed to provide our creditors and other interested parties with a general overview of the Corporation and its financial activities.

#### FINANCIAL HIGHLIGHTS

The Corporation's net position was \$452,088 and \$347,061 on December 31, 2016 and 2015, respectively.

The Corporation's revenues increased \$132,276 from 2015 to 2016 and \$7,532 from 2014 to 2015. The Corporation's expenses decreased \$32,870 from 2015 to 2016 and \$26,358 from 2014 to 2015.

In 2016, the Corporation contributed \$125,000 to Nursery Partners LLC to form a joint venture.

In January 2014, the City of Shaker Heights loaned the Corporation \$27,200 with an interest rate of 1 percent that is due in full, with interest, in January 2020.

#### OVERVIEW OF BASIC FINANCIAL STATEMENTS

The Corporation is a single enterprise fund using proprietary fund accounting, similar to a private sector business. The basic financial statements are presented using the accrual basis of accounting.

The **Statements of Net Position** include all of the Corporation's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or declining.

The **Statements of Revenues, Expenses and Changes in Net Position** provide information on the Corporation's operations over the past year. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the Corporation's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, and financing activities.

# Shaker Heights Development Corporation

## Management's Discussion and Analysis

### For the Years Ended December 31, 2016 and 2015 (Unaudited)

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#### NET POSITION

Table 1 summarizes the net position of the Corporation.

TABLE 1

|                           | <u>2016</u>       | <u>2015</u>       | <u>2014</u>       |
|---------------------------|-------------------|-------------------|-------------------|
| Assets:                   |                   |                   |                   |
| Current assets            | \$ 368,265        | \$ 375,835        | \$ 434,636        |
| Non-current assets        | <u>124,497</u>    | <u>-</u>          | <u>-</u>          |
| Total assets              | <u>492,762</u>    | <u>375,835</u>    | <u>434,636</u>    |
| Liabilities:              |                   |                   |                   |
| Current liabilities       | 13,474            | 1,574             | 256               |
| Long-term liabilities:    |                   |                   |                   |
| Due in more than one year | <u>27,200</u>     | <u>27,200</u>     | <u>27,200</u>     |
| Total liabilities         | <u>40,674</u>     | <u>28,774</u>     | <u>27,456</u>     |
| Net position:             |                   |                   |                   |
| Restricted                | 139,236           | 278,615           | 337,103           |
| Unrestricted              | <u>312,852</u>    | <u>68,446</u>     | <u>70,077</u>     |
| Total net position        | \$ <u>452,088</u> | \$ <u>347,061</u> | \$ <u>407,180</u> |

#### REVENUES, EXPENSES AND CHANGES IN NET POSITION

Table 2 below summarizes the changes in revenues and expenses and the resulting change in net position.

TABLE 2

|                                   | <u>2016</u>       | <u>2015</u>       | <u>2014</u>       |
|-----------------------------------|-------------------|-------------------|-------------------|
| Operating revenues                | \$ 344,173        | \$ 213,832        | \$ 206,215        |
| Operating expenses                | <u>241,089</u>    | <u>273,960</u>    | <u>300,334</u>    |
| Operating income (loss)           | 103,084           | (60,128)          | (94,119)          |
| Non-operating revenues            | 2,216             | 281               | 366               |
| Non-operating expenses            | <u>(273)</u>      | <u>(272)</u>      | <u>(256)</u>      |
| Changes in net position           | 105,027           | (60,119)          | (94,009)          |
| Net position at beginning of year | <u>347,061</u>    | <u>407,180</u>    | <u>501,189</u>    |
| Net position at end of year       | \$ <u>452,088</u> | \$ <u>347,061</u> | \$ <u>407,180</u> |



# **Shaker Heights Development Corporation**

## **Management's Discussion and Analysis**

### **For the Years Ended December 31, 2016 and 2015 (Unaudited)**

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#### **REVENUES, EXPENSES AND CHANGES IN NET POSITION (continued)**

Revenues increased by \$132,276 from 2015 to 2016 and \$7,532 from 2014 to 2015. The increase in revenue in 2016 was due to the City's sale of real estate. The proceeds from this sale were then gifted to the Corporation. These proceeds are included in contributions and grants. The increase in revenue in 2015 was the result of additional fundraising by the Corporation.

Expenses decreased by \$32,870 from 2015 to 2016 and by \$26,358 from 2014 to 2015. Education expenses decreased by \$97,156 in 2016 due to the closure of the Shaker Launch House Institute. Administration expenses increased in 2016 by \$63,889 due to purchasing supplies, materials and office equipment for the Dealership. Fundraising expenses decreased by \$32,205 resulting from the expiration of a consulting contract. Dealership expenses increased by \$32,098 as the Corporation opened a new venture to help stimulate small business growth within the City.

#### **DEBT ADMINISTRATION**

At December 31, 2016 and 2015, the Corporation had \$27,200 in outstanding debt related to an advance from the City of Shaker Heights. Additional information can be found in Note 5.

#### **CURRENT FINANCIAL RELATED ACTIVITIES**

In 2016, the Corporation successfully increased contributions and grants revenue by 47 percent, from \$211,077 to \$310,159. The Corporation plans to build on this success by continuing to increase its donor base to support economic development activities and programs.

#### **CONTACT INFORMATION**

Questions regarding this report and requests for additional information should be forwarded to Nick Fedor, Executive Director of the Corporation, or Scott D. Garson, President of the Corporation, 3400 Lee Road, Shaker Heights, Ohio 44120, and (216) 491-1425.

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# Shaker Heights Development Corporation

## Statements of Net Position

**December 31, 2016 and 2015**

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|  | <u>2016</u>              | <u>2015</u>              |
|--|--------------------------|--------------------------|
| Assets:                                    |                          |                          |
| Current:                                   |                          |                          |
| Cash and cash equivalents                  | \$ 226,529               | \$ 97,220                |
| Restricted cash and cash equivalents       | 44,725                   | 173,479                  |
| Accounts receivable, net                   | 2,500                    | -                        |
| Restricted mortgage loans receivables, net | <u>94,511</u>            | <u>105,136</u>           |
| Total current assets                       | 368,265                  | 375,835                  |
| Non-current:                               |                          |                          |
| Investment in joint venture                | <u>124,497</u>           | <u>-</u>                 |
| Total assets                               | <u>492,762</u>           | <u>375,835</u>           |
| Liabilities:                               |                          |                          |
| Current liabilities:                       |                          |                          |
| Accounts payable                           | 11,339                   | -                        |
| Accrued wages                              | 1,334                    | 1,046                    |
| Interest payable                           | <u>801</u>               | <u>528</u>               |
| Total current liabilities                  | 13,474                   | 1,574                    |
| Long-term liabilities:                     |                          |                          |
| Long-term debt                             | <u>27,200</u>            | <u>27,200</u>            |
| Total liabilities                          | <u>40,674</u>            | <u>28,774</u>            |
| Net Position:                              |                          |                          |
| Restricted                                 | 139,236                  | 278,615                  |
| Unrestricted                               | <u>312,852</u>           | <u>68,446</u>            |
| Total net position                         | \$ <u><u>452,088</u></u> | \$ <u><u>347,061</u></u> |

The accompanying notes are an integral part of these financial statements

# Shaker Heights Development Corporation

## Statements of Revenues, Expenses and Changes in Net Position

### For the Years Ended December 31, 2016 and 2015

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|   | <u>2016</u>              | <u>2015</u>              |
|---|--------------------------|--------------------------|
| Operating revenues:                       |                          |                          |
| Contributions and grants                  | \$ 310,159               | \$ 211,077               |
| Loan interest income                      | 2,582                    | 2,755                    |
| Dealership income                         | <u>31,432</u>            | <u>-</u>                 |
| Total operating revenues                  | <u>344,173</u>           | <u>213,832</u>           |
| Operating expenses:                       |                          |                          |
| Education (Shaker Launch House Institute) | 20,273                   | 117,429                  |
| Administration                            | 155,133                  | 91,244                   |
| Fundraising                               | 33,082                   | 65,287                   |
| Loss on investment in joint venture       | 503                      | -                        |
| Dealership expenses                       | <u>32,098</u>            | <u>-</u>                 |
| Total operating expenses                  | <u>241,089</u>           | <u>273,960</u>           |
| Operating income (loss)                   | <u>103,084</u>           | <u>(60,128)</u>          |
| Non-operating revenues (expenses):        |                          |                          |
| Investment income                         | 2,216                    | 281                      |
| Interest expense                          | <u>(273)</u>             | <u>(272)</u>             |
| Total non-operating revenues (expenses)   | <u>1,943</u>             | <u>9</u>                 |
| Change in net position                    | 105,027                  | (60,119)                 |
| Net position at beginning of year         | <u>347,061</u>           | <u>407,180</u>           |
| Net position at end of year               | \$ <u><u>452,088</u></u> | \$ <u><u>347,061</u></u> |

The accompanying notes are an integral part of these financial statements

# Shaker Heights Development Corporation

## Statements of Cash Flows

### For the Years Ended December 31, 2016 and 2015

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|   | <u>2016</u>              | <u>2015</u>               |
|---|--------------------------|---------------------------|
| Cash flows from operating activities:   |                          |                           |
| Cash receipts for contributions and grants  | \$ 310,159               | \$ 211,077                |
| Cash receipts for loans   | 13,207                   | 12,192                    |
| Cash receipts for the Dealership  | 28,932                   | -                         |
| Cash payments for education   | (20,273)                 | (106,367)                 |
| Cash payments for personal services   | (74,666)                 | (66,163)                  |
| Cash payments for goods and services  | (104,990)                | (85,877)                  |
| Cash payments for the Dealership  | (29,030)                 | -                         |
| Cash contributed to the joint venture   | <u>(125,000)</u>         | <u>-</u>                  |
| Net cash used for operating activities  | (1,661)                  | (35,138)                  |
| Cash flows from investing activities:   |                          |                           |
| Interest received   | <u>2,216</u>             | <u>281</u>                |
| Net change in cash  | 555                      | (34,857)                  |
| Cash and cash equivalents at beginning of year  | <u>270,699</u>           | <u>305,556</u>            |
| Cash and cash equivalents at end of year  | \$ <u><u>271,254</u></u> | \$ <u><u>270,699</u></u>  |
| <i>Reconciliation of operating income (loss) to net cash from operating activities:</i> |                          |                           |
| Operating income (loss)   | \$ 103,084               | \$ (60,128)               |
| Changes in operating assets/liabilities:  |                          |                           |
| Decrease in loans receivable  | 10,625                   | 9,437                     |
| Increase in accounts receivable, net  | (2,500)                  | -                         |
| Decrease in prepaid expenses  | -                        | 14,507                    |
| Increase in investment in joint venture   | (124,497)                | -                         |
| Increase in accounts payable  | 11,339                   | -                         |
| Increase in accrued wages   | <u>288</u>               | <u>1,046</u>              |
| Net cash used for operating activities  | \$ <u><u>(1,661)</u></u> | \$ <u><u>(35,138)</u></u> |

The accompanying notes are an integral part of these financial statements

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements

**December 31, 2016 and 2015**

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### **Note 1: Reporting Entity**

The Shaker Heights Development Corporation (the “Corporation”) was created in 1980 by the City of Shaker Heights (the “City”), a political subdivision of the State of Ohio, pursuant to the authority of Article VIII, Section 13 of the Ohio Constitution and Chapter 1724 of the Ohio Revised Code. All of the activities of the Corporation are intended to be conducted in and to benefit the people and businesses within the corporate limits of the City of Shaker Heights (other than, perhaps, some support activities that may be conducted in the future, such as fundraising).

The Corporation initially formed a Board of Trustees, which met several times, but the Corporation did not become active until 2011. In the intervening years, the City maintained the status of the Corporation as a corporate entity registered with the State of Ohio with the idea that someday the City might need the activities and services that a Corporation formed under Ohio State law could perform. The Corporation was never funded, and had no revenue or expenditures during those dormant years.

In 2011, the City determined that certain services of the Corporation were needed, and so the existing Board members met and took several actions to begin the process of making the Corporation a functioning and active organization that could assist in the economic development of the City. The Internal Revenue Service approved the Corporation’s status as a 501(c)(3) non-profit corporation on September 8, 2011 and in 2014, the formal name was changed to the Shaker Heights Development Corporation.

The Corporation acts as the agency and instrumentality of the City for the purpose of initiating and guiding economic and community development projects in the City in accordance with Chapter 1724 of the Ohio Revised Code.

Under State law, no less than two-fifths of the governing board of the Corporation must be comprised of appointed or elected officers of the City.

Nursery Partners LLC (the “LLC”) is a joint venture among the Corporation and a private member that was formed as of December 6, 2016. The LLC was formed to acquire, own, hold, sell, lease, transfer, exchange, manage and operate that certain premises situated in the City of Shaker Heights located at 3706-3722 Lee Road. The LLC will be managed by its designated managing members. The LLC is a joint venture in which each member has an equity interest.

The Corporation has an explicit and measurable equity interest in the LLC. The Corporation will receive distributions from the LLC in proportion to the percentage interest at the time of said distribution. Liquidation of the LLC will be made to the members based on the respective positive capital account balance. The LLC is further described in Note 6.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2016 and 2015**

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### Note 2: Summary of Significant Accounting Policies

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management Analysis – for State and Local Governments*. The Corporation's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The Corporation uses enterprise fund accounting to prepare the financial statements. Enterprise fund accounting focuses on the determination of operating income, changes in net position, financial position and cash flows.

#### Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

#### Basis of Presentation

Net position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net position of the Corporation is classified as follows:

- Unrestricted – Net position that are not subject to donor-imposed stipulations.
- Restricted Net Position – Net position subject to donor-imposed stipulations that can be fulfilled by actions of the Corporation pursuant to those stipulations or that expire by the passage of time or that are required to be maintained in perpetuity. Generally, the donors of such assets permit the Corporation to use all or part of the income earned on the assets for general or specific purposes.

The Corporation applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted amounts are available.

#### Measurement Focus

The Corporation's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of net position. The operating statement presents increases and decreases in net position and distinguishes between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Corporation's purpose. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2016 and 2015**

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### Note 2: Summary of Significant Accounting Policies (continued)

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. During fiscal year 2016 and 2015, investments were limited to negotiable certificates of deposit and U.S. Treasury Notes.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificate of deposits are reported at cost.

#### Concentrations

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of periodic temporary investments of excess cash. The Corporation places its temporary excess cash in high-quality financial institutions.

#### Mortgage Loan Receivables

Mortgage loans receivable are scheduled future principal payments to be received from citizens who have borrowed money from the Fund for the Future of Shaker Heights as part of the down payment loan program. The loans carry varying interest rates and interest revenue is recorded when payments are received. The loans receivable were transferred to the Corporation in October 2012 as part of the dissolution of the Fund for the Future of Shaker Heights.

#### Income Taxes

The Corporation has qualified for a tax exemption under Section 501c(3) of the Internal Revenue Code and, accordingly, no provision for federal income tax has been recorded in the accompanying financial statements.

Income taxes are accounted for under the provisions of the "Income Taxes" topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Corporation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of December 31, 2016, the Corporation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.



# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2016 and 2015**

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### **Note 2: Summary of Significant Accounting Policies (continued)**

#### Capital Assets

All purchased capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Corporation's capitalization threshold is \$10,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. At December 31, 2016 and 2015, the Corporation does not have any capital assets.

#### Investment in Joint Venture

The investment in the Nursery Partners LLC joint venture is reported using the equity method of accounting.

### **Note 3: Cash and Cash Equivalents**

For convenience, the Corporation uses the City as its fiscal agent and pools the Corporation's cash and cash equivalents with the other City deposits. Therefore, although it is not required to do so, the Corporation follows the City's investment policies as follows.

State statutes classify monies held by the City into three categories.

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

Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. The City's investment policies are governed by the City's charter and ordinances. The charter authorizes the City to invest in the following securities:

1. Bonds or notes which are issued by and are obligations of the City.
2. Bonds, notes, certificates of indebtedness, treasury bills or other securities issued by and constituting direct obligations of, or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest thereon.
3. Bonds or notes which are issued by and are the obligations of the State of Ohio, provided that such bonds or notes have a rating assigned to them by Standard & Poor's Corporation or Moody's Investor Services, Inc. which rating:
  - a. As to bonds, is one of the two highest rating categories that may be assigned; and
  - b. As to notes, is the highest rating category that may be assigned.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2016 and 2015**

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### Note 3: Cash and Cash Equivalents (continued)

In order to be eligible investments under points (2) and (3), there must be no outstanding default for the payment of the principal or interest on such securities and the securities must mature or be subject to redemption at the option of the City within five years of the date the City purchased such security.

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

Written repurchase agreements in the securities listed above are permitted provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to the market daily. The term of the agreement may not exceed 30 days.

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

### Deposits

*Custodial credit risk* is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. Protection of the Corporation's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At December 31, 2016, the carrying amount of the Corporation's deposits was \$215,011 (including \$141 of petty cash and a deposit in transit of \$1,000) and the bank balance was \$213,870. At December 31, 2015, the carrying amount of the Corporation's deposits was \$191,339 (including \$227 of petty cash) and the bank balance was \$191,112. At times the bank deposit accounts may exceed federal insured limits. The amounts exceeding the federal insured limits are collateralized with securities held by the pledging institutions trust department not in the Corporation's name.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2016 and 2015

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#### Note 3: Cash and Cash Equivalents (continued)

##### Investments

Investments are reported at fair value.

As of December 31, 2016, the Corporation's allocation of investments is the following:

|                                    | <u>Fair Value</u> | <u>Maturities (in years)</u> |                  |
|------------------------------------|-------------------|------------------------------|------------------|
|                                    |                   | <u>Less than 1</u>           | <u>1-3</u>       |
| U.S. Treasury Notes                | \$ 36,491         | \$ 25,300                    | \$ 11,191        |
| Negotiable Certificates of Deposit | 19,752            | 8,397                        | 11,355           |
| Total Portfolio                    | <u>\$ 56,243</u>  | <u>\$ 33,697</u>             | <u>\$ 22,546</u> |

As of December 31, 2015, the Corporation's allocation of investments is the following:

|                                    | <u>Fair Value</u> | <u>Maturities (in years)</u> |                  |
|------------------------------------|-------------------|------------------------------|------------------|
|                                    |                   | <u>Less than 1</u>           | <u>1-2</u>       |
| U.S. Treasury Notes                | \$ 56,756         | \$ 15,840                    | \$ 40,916        |
| Negotiable Certificates of Deposit | 22,604            | 4,713                        | 17,891           |
| Total Portfolio                    | <u>\$ 79,360</u>  | <u>\$ 20,553</u>             | <u>\$ 58,807</u> |

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2016:

- Negotiable Certificates of Deposit are measured based on Level 2 inputs using a matrix pricing method.
- U.S. Treasury Notes are measured based on Level 1 inputs, quoted market prices in active markets.

*Interest Rate Risk* arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Corporation's investment policy addresses interest rate risk requiring that the Corporation's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The Corporation's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2016 and 2015**

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### Note 3: Cash and Cash Equivalents (continued)

#### Investments (continued)

*Custodial Risk* for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Corporation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the Corporation must meet a set of prescribed standards and be periodically reviewed.

*Credit Risk* is addressed in the Corporation's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. All U.S. Treasury Notes of the Corporation are registered and carry a rating of AAA by Moody's. The negotiable certificates of deposit are not rated.

*Concentration of Credit Risk* is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The Corporation's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

| <u>Investment Issuer</u>           | <u>Percentage of Investments</u> |             |
|------------------------------------|----------------------------------|-------------|
|                                    | <u>2016</u>                      | <u>2015</u> |
| U.S. Treasury Notes                | 64.88%                           | 71.52%      |
| Negotiable Certificates of Deposit | 35.12%                           | 28.48%      |

### Note 4: Mortgage Loans Receivables, Net

Mortgage loans receivables result from down-payment assistance loans given to citizens of the City of Shaker Heights by the Fund for the Future of Shaker Heights. The mortgage loans receivable were donated to the Corporation in 2012. The receivables are collateralized by second mortgages in the property being purchased and are administered by a third-party bank. The loans are due in full upon sale of the underlying property and there is no prepayment penalty for early principal payments.

Mortgage loans receivable, net at December 31, 2016 and 2015 were as follows:

|                                 |                         |                          |
|---------------------------------|-------------------------|--------------------------|
| Gross mortgage receivables      | \$ <u>103,177</u>       | \$ <u>113,802</u>        |
| Allowance for doubtful accounts | <u>(8,666)</u>          | <u>(8,666)</u>           |
| Mortgage loans receivables, net | \$ <u><u>94,511</u></u> | \$ <u><u>105,136</u></u> |

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2016 and 2015

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#### **Note 4: Mortgage Loans Receivables, Net (continued)**

Contractual maturities of the net mortgage receivables were as follows at December 31, 2016:

|            | <u>Principal</u> | <u>Interest</u>  |
|------------|------------------|------------------|
| 2017       | \$ 10,264        | \$ 2,250         |
| 2018       | 9,971            | 1,991            |
| 2019       | 9,379            | 1,755            |
| 2020       | 9,611            | 1,524            |
| 2021       | 9,849            | 1,285            |
| Thereafter | <u>45,437</u>    | <u>6,395</u>     |
|            | <u>\$ 94,511</u> | <u>\$ 15,200</u> |

#### **Note 5: Long-term Debt**

Long-term debt is comprised of the following:

|  | <u>Balance</u><br><u>12/31/15</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u><br><u>12/31/16</u> | <u>Due</u><br><u>Within</u><br><u>One Year</u> |
|--|-----------------------------------|------------------|------------------|-----------------------------------|--|
| Loan from City of Shaker Heights,<br>due January 2020, 1% interest | \$ <u>27,200</u>                  | \$ <u>-</u>      | \$ <u>-</u>      | \$ <u>27,200</u>                  | \$ <u>-</u>                                    |

In January 2014, the City of Shaker Heights advanced to the Corporation \$27,200 to fund costs associated with professional fund development to assist the Corporation in raising funds to pursue economic development projects, including the Shaker Launch House Institute. At the time the loan had a three-year term with an interest rate of one percent. In 2016, the loan was extended another three years. All principal and interest payments are due at maturity.

#### **Note 6: Investment in Joint Venture**

Nursery Partners LLC (the "LLC") is a joint venture among the Corporation and a private member. The LLC was formed to acquire, own, hold, sell, lease, transfer, exchange, manage and operate that certain premises situated in the City of Shaker Heights located at 3706-3722 Lee Rd.

The Corporation contributed \$125,000 to the LLC in 2016 as part of its initial capital contribution. The Corporation's share of the profits and losses is 77%. During 2016 the joint venture experienced a \$653 loss, \$503 of which was the Corporation's share. The Corporation's equity interest is 124,497, which represents 71.4% of the total equity of the LLC.

The LLC has not prepared publicly available financial statements as of December 31, 2016.

#### **Note 7: Related Party**

The City donated \$168,646 to the Corporation during 2016.

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# Dave Yost • Auditor of State

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

Shaker Heights Development Corporation  
Cuyahoga County  
3400 Lee Road  
Shaker Heights, Ohio 44120

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 the Shaker Heights Development Corporation, Cuyahoga County, (the Corporation) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated August 23, 2017.

### ***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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 23, 2017





# Dave Yost • Auditor of State

**SHAKER HEIGHTS DEVELOPMENT CORPORATION**

**CUYAHOGA 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  
SEPTEMBER 5, 2017**