



Dave Yost • Auditor of State

**DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Downtown Cleveland Improvement Corporation
Cuyahoga County
1010 Euclid Ave. Third Floor
Cleveland, Ohio 44115

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Downtown Cleveland Improvement Corporation, Cuyahoga County, Ohio (the Corporation), (a not-for-profit corporation), which comprise the statement of assets, liabilities, and net assets – modified cash basis, and the related statement of revenues, expenses, and other changes in net assets – modified cash basis, statement of functional expenses – modified cash basis and statement of cash flows – modified cash basis as of and for the year ended December 31, 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 modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Downtown Cleveland Improvement Corporation, Cuyahoga County, Ohio, as of December 31, 2016, and the respective changes in modified cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looped "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

November 21, 2017

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS -
MODIFIED CASH BASIS

DECEMBER 31, 2016

ASSETS		
Cash and cash equivalents		\$ 5,268
		<u>5,268</u>
	TOTAL ASSETS	<u>\$ 5,268</u>
NET ASSETS		
Temporarily restricted		\$ 5,268
		<u>5,268</u>
	TOTAL NET ASSETS	<u>5,268</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,268</u>

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS -
MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Revenues from special assessments	\$ -	\$ 4,028,066	\$ 4,028,066
Net assets released from restrictions through satisfaction of program restrictions	4,028,066	(4,028,066)	-
TOTAL REVENUE AND OTHER SUPPORT	4,028,066	-	4,028,066
EXPENSES			
Program services	4,028,066	-	4,028,066
TOTAL EXPENSES	4,028,066	-	4,028,066
CHANGE IN NET ASSETS	-	-	-
NET ASSETS AT BEGINNING OF YEAR	-	5,268	5,268
NET ASSETS AT END OF YEAR	\$ -	\$ 5,268	\$ 5,268

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2016

EXPENSES - PROGRAM SERVICES	
Funds disbursed to Downtown Cleveland Alliance	<u>\$ 4,028,066</u>
TOTAL EXPENSES	<u><u>\$ 4,028,066</u></u>

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ -
	<hr/>
NET CASH PROVIDED BY (USED FOR)	
OPERATING ACTIVITIES	-
	<hr/>
NET INCREASE (DECREASE) IN CASH	
AND CASH EQUIVALENTS	-
	<hr/>
CASH AND CASH EQUIVALENTS, beginning of year	5,268
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CASH AND CASH EQUIVALENTS, end of year	\$ 5,268
	<hr/> <hr/>

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1 -- NATURE OF ACTIVITIES

Downtown Cleveland Improvement Corporation (“DCIC”) was formed in 2005 by a coalition of downtown property owners to create a Special Improvement District (“SID”) for downtown Cleveland and to represent the interests of the SID. SIDs are mechanisms that permit stakeholders in an area to provide funding for that area’s development. Each downtown property owner in the SID is a member of DCIC. DCIC has a contract with the City of Cleveland (the “City”) to provide a comprehensive array of services for the SID (the “Services Plan”). The contract with the City for the Services Plan has a term of five years and, in October 2015, DCIC and City extended the contract through 2020. Since its inception, public security and maintenance has been a priority of the Services Plan through its Clean and Safe Program. The Services Plan also supports other initiatives, creating a favorable climate to recruit, retain and grow healthy businesses. These initiatives include:

- Promoting Downtown as a regional destination and viable housing market
- Programming public spaces for special events, entertainment and other crowd-attracting activities
- Assisting property owners and brokers to recruit and retain retail and office tenants
- Cosmetic capital improvements like gateway, signage, banners, public art and streetscape designs

To fund the Services Plan, the City collects special assessments from downtown property owners which are remitted as contributions to DCIC. DCIC, in turn, remits these special assessments, net of expenses, as grants to a related entity known as Downtown Cleveland Alliance (“DCA”) under an agreement between DCIC and DCA whereby DCA provides administrative and management services for the SID. Under the arrangement, DCA has entered into a contract with an outside party to implement the Services Plan. DCIC and DCA share common management and some common members on their Boards of Directors; however, neither entity has a controlling financial interest in the other. DCIC’s contracts with the City and DCA are more fully described in Note 3.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting: The financial statements are prepared on the modified cash basis of accounting; consequently, certain revenue and the related assets, principally revenues from the special assessments, are recognized when cash is received rather than when earned; and certain expenses and the related liabilities, principally accounts payable and accrued liabilities, are recognized when cash is disbursed rather than when the obligation is incurred. Under this method, and when applicable, certain allowable modifications from the pure cash basis of accounting may be incorporated.

Cash and cash equivalents: DCIC considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of one checking account at a commercial bank. Although the balance in this account, at times, may exceed the federal insurance limit, management does not believe that DCIC is exposed to any substantial credit risk.

Revenue recognition: Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets consist of funds which are for future programs and services.

Donated services and facilities: The fair value of services and facilities donated to DCIC during 2016 was not material and; therefore, has not been recorded in the accompanying financial statements.

Use of estimates: The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial instruments: DCIC's financial instruments are cash and cash equivalents. The recorded values of cash and cash equivalents approximate their fair values based on their short-term nature.

Allocation of expenses by function: Amounts in the accompanying statements of functional expenses are allocated entirely to program services. Total expenses for supporting services, which are entirely donated to DCIC, during 2016 were not material, and; therefore, have not been recorded in the accompanying financial statements.

Subsequent events: In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 21, 2017, the date the financial statements were available to be issued.

NOTE 3 -- SPECIAL IMPROVEMENT DISTRICT

Under the Services Plan with the City, DCIC provides a comprehensive array of services for the SID. To fund the Services Plan, the City remits special assessments collected from Downtown Cleveland property owners to DCIC. The special assessments are invoiced to the property owners annually and remitted as contributions to DCIC within 30 days of receipt by the City. The total assessments each year are equal to the estimated cost of the Services Plan and are allocated to the property owners using a formula based upon property value and linear front footage. To accommodate cost of living and program changes, a 3% annual increase to the assessment was budgeted for each successive year through 2015. Of the cumulative budgeted assessments from inception in 2006 through 2016 of \$38,710,000, DCIC has collected in cash from the City during 2006 through 2016 a total of \$37,635,000.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

As of December 31, 2016, net of deductions by the City for certain authorized expenses, there is approximately \$1,074,800 still outstanding, which relates to the following years:

2016	\$	867,400
2015		50,700
2014		42,300
2013		45,300
2009		9,500
2008		31,300
2007		23,200
2006		<u>5,400</u>
		<u>\$ 1,075,100</u>

DCIC expects to receive, based on historical collection rates, substantially all the remaining balance, net of certain authorized expenses of the City, through assessments levied by Cuyahoga County.

DCIC has a contract with DCA whereby DCA provides administrative and management services for the SID. Under the arrangement, DCA has a contract with a third-party to provide services under the Services Plan. DCIC remits the special assessments received, net of expenses, as grants to DCA and DCA holds the net special assessment funds in separate bank and investment accounts. Funds disbursed to DCA during 2016 totaled \$4,028,066. In May 2016, DCIC extended its contract with DCA through March 2021.

In October 2015, Cleveland City Council passed a five-year reauthorization of the SID for the years 2016 through 2020, and approved DCIC's amended Articles of Incorporation for an expanded geography of the SID that includes the Flats East Bank development. The 2016 assessment budget has been increased to cover the additional service area. Beginning in 2017, the annual increase in assessments for cost of living and further program changes will be 1%.

NOTE 4 -- FEDERAL INCOME TAXES

DCIC is a non-profit entity exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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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*

Downtown Cleveland Improvement Corporation
Cuyahoga County
1010 Euclid Ave, Third Floor
Cleveland, Ohio 44115

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 Downtown Cleveland Improvement Corporation, Cuyahoga County, (the Corporation) as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2017, wherein we noted the Corporation uses a special purpose framework other than generally accepted accounting principles.

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 opinion 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 report is not suitable for any other purpose.

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Dave Yost
Auditor of State
Columbus, Ohio

November 21, 2017



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DOWNTOWN CLEVELAND IMPROVEMENT 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
DECEMBER 5, 2017**