SHAKER HEIGHTS DEVELOPMENT CORPORATION
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

OHIO AUDITOR OF STATE
KEITH FABER

SHAKER HEIGHTS DEVELOPMENT CORPORATION
CUYAHOGA COUNTY
DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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 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 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 financial position of the Shaker Heights Development Corporation, Cuyahoga County, Ohio, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years 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 October 25, 2019, 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.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

October 25, 2019

Shaker Heights Development Corporation

Management's Discussion and Analysis

For the Years Ended December 31, 2018 and 2017

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 $433,159 and $363,017 on December 31, 2018 and 2017, respectively.

The Corporation's revenues increased $250,130 from 2017 to 2018 and decreased $178,395 from 2016 to 2017. The Corporation's expenses increased $90,917 from 2017 to 2018 and increased $15,703 from 2016 to 2017.

The Corporation contributed $503 in 2017 to Nursery Partners LLC which is considered a joint venture. No contributions were made in 2018.

In June 2018, the Village Capital Corporation loaned the Corporation $115,500 with an interest rate of five percent to fund costs associated with certain leasehold improvements to the Dealership. The loan has a ten-year term and requires monthly payments of principal and interest.

In 2018, the Corporation capitalized $152,498 capital improvements related to the Dealership. These assets are being depreciated over the remaining life of the Dealership operating lease.

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, 2018 and 2017

NET POSITION

Table 1 summarizes the net position of the Corporation.

TABLE 1

	2018	2017	2016
Assets:			
Current assets	$ 315,530	$ 284,276	$ 368,265
Non-current assets	265,283	117,063	124,497
Total assets	580,813	401,339	492,762
Liabilities:			
Current liabilities	15,748	11,122	13,474
Long-term liabilities:			
Due in more than one year	131,906	27,200	27,200
Total liabilities	147,654	38,322	40,674
Net position:			
Net investment in capital assets	31,345	-	-
Restricted	23,700	20,000	139,236
Unrestricted	378,114	343,017	312,852
Total net position	$ 433,159	$ 363,017	$ 452,088

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

	2018	2017	2016
Operating revenues	$ 414,703	$ 166,459	$ 344,173
Operating expenses	345,651	256,793	241,089
Operating income (loss)	69,052	(90,334)	103,084
Non-operating revenues	3,421	1,535	2,216
Non-operating expenses	(2,331)	(272)	(273)
Changes in net position	70,142	(89,071)	105,027
Net position at beginning of year	363,017	452,088	347,061
Net position at end of year	$ 433,159	$ 363,017	$ 452,088

REVENUES, EXPENSES AND CHANGES IN NET POSITION (continued)

Revenues increased by $250,130 from 2017 to 2018 and decreased $178,395 from 2016 to 2017. The increase in revenue in 2018 was due to the increase in contributions and grants and Dealership income. Contribution and grants increased due to 2018 being the first year for the "Shake It Up" benefit. Dealership income increased due to an increase in occupancy and related rental income.

Expenses increased by $90,917 from 2017 to 2018 and increased by $15,703 from 2016 to 2017. The increase in expense in 2018 was due to an increase in fundraising costs related to the "Shake It Up" benefit. The increase in expense in 2017 was due to the Dealership being operational for a full year offset by decreases in grants, administration and fundraising costs.

CAPITAL ASSETS

The Corporation has capital assets of $145,236 at December, 31 2018. The Corporation did not have any capital assets at December, 31 2017.

DEBT ADMINISTRATION

At December 31, 2018 and 2017, the Corporation had $141,091 and $27,200, respectively, in outstanding debt related to advances from the City of Shaker Heights and the Village Capital Corporation (2018 only). Additional information can be found in Note 6.

CURRENT FINANCIAL RELATED ACTIVITIES

At December 31, 2018 and 2017 the Corporation had total assets of $580,813 and $401,339 and total net position of $433,159 and $363,017, respectively. This resulted in an increase in net position of $70,142 for 2018 and a decrease of $89,071 for 2017. Management continues to monitor all activity affecting the condition of the Corporation.

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, 2018 and 2017

	2018	2017
Assets:		
Current:		
Cash and cash equivalents	$ 234,691	$ 190,640
Restricted cash and cash equivalents	23,700	20,000
Accounts receivable, net	2,200	900
Mortgage loans receivable, net	54,939	72,736
Total current assets	315,530	284,276
Non-current:		
Investment in joint venture	120,047	117,063
Depreciable capital assets, net	145,236	-
Total non-current assets	265,283	117,063
Total assets	580,813	401,339
Liabilities:		
Current liabilities:		
Accounts payable	3,129	8,648
Accrued wages	2,089	1,401
Interest payable	1,345	1,073
Loans payable	9,185	-
Total current liabilities	15,748	11,122
Long-term liabilities (net of current portion):		
Loans payable	131,906	27,200
Total liabilities	147,654	38,322
Net position:		
Net investment in capital assets	31,345	-
Restricted	23,700	20,000
Unrestricted	378,114	343,017
Total net position	$ 433,159	$ 363,017

Shaker Heights Development Corporation

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Contributions and grants	$ 278,620	$ 104,523
Loan interest income	1,749	2,172
Income on investment in joint venture	2,984	-
Dealership income	131,350	59,764
Total operating revenues	414,703	166,459
Operating expenses:		
Grant	20,296	9,948
Administration	145,827	140,427
Fundraising	83,892	19,177
Loss on investment in joint venture	-	7,937
Dealership expenses	88,374	79,304
Depreciation	7,262	-
Total operating expenses	345,651	256,793
Operating income (loss)	69,052	(90,334)
Non-operating revenues (expenses):		
Investment income	3,421	1,535
Interest expense	(2,331)	(272)
Total non-operating revenues (expenses)	1,090	1,263
Change in net position	70,142	(89,071)
Net position at beginning of year	363,017	452,088
Net position at end of year	$ 433,159	$ 363,017

The accompanying notes are an integral part of the financial statements

Shaker Heights Development Corporation

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts for contributions and grants	$ 278,620	$ 104,523
Cash receipts for loans	19,546	23,947
Cash receipts for the Dealership	130,050	61,364
Cash payments for education	(20,296)	(9,948)
Cash payments for personal services	(85,173)	(79,476)
Cash payments for goods and services	(146,309)	(82,752)
Cash payments for the Dealership	(91,442)	(79,304)
Cash contributed to the joint venture	-	(503)
Net cash provided (used) by operating activities	84,996	(62,149)
Cash flows from investing activities:		
Interest received	3,421	1,535
Cash flows from capital and related financing activities:		
Acquisition of assets	(152,498)	-
Proceeds from debt	115,500	-
Principal paid on debt	(1,609)	-
Interest paid	(2,059)	-
Net cash used by capital and related financing activities	(40,666)	-
Net change in cash	47,751	(60,614)
Cash and cash equivalents at beginning of year	210,640	271,254
Cash and cash equivalents at end of year	$ 258,391	$ 210,640
Reconciliation of operating income (loss) to net cash from operating activities:		
Operating income (loss)	$ 69,052	$ (90,334)
Adjustments:		
Depreciation	7,262	-
Changes in operating assets/liabilities:		
Decrease in loans receivable	17,797	21,775
(Increase) decrease in accounts receivable, net	(1,300)	1,600
(Increase) decrease in investment in joint venture	(2,984)	7,434
Decrease in accounts payable	(5,519)	(2,691)
Increase in accrued wages	688	67
Net cash provided (used) by operating activities	$ 84,996	$ (62,149)

The accompanying notes are an integral part of the financial statements

Note 1: Reporting Entity

The Shaker Heights Development Corporation (the "Corporation") was originally created in 1980 under the name Shaker Heights Community Improvement Corporation 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 an expanded Board 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.

The Corporation operates the Dealership, which is a coworking community in Shaker Heights for remote workers, freelancers, and small businesses. The Dealership is home to businesses in a range of industries including e-commerce, accounting, real estate, small scale manufacturing and the performing arts. It is an anchor for the Chagrin + Lee business district.

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 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 8.

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 is 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.

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 2018 and 2017, investments were limited to negotiable certificates of deposit, U.S. Treasury Notes, and bonds issued by the State of Ohio.

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 Loans Receivable

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 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal income tax has been recorded in the accompanying financial statements.

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 acquisition 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. Asset are depreciated over the remaining life of the Dealership operating lease.

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:

Note 3: Cash and Cash Equivalents (continued)

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.

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.

Note 3: Cash and Cash Equivalents (continued)

Deposits (continued)

At December 31, 2018, the carrying amount of the Corporation's deposits was $157,631 (including $121 of petty cash) and the bank balance was $157,510. At December 31, 2017, the carrying amount of the Corporation's deposits was $165,579 (including $100 of petty cash) and the bank balance was $165,479. 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.

The Corporation has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by:

> Eligible securities pledged to the Corporation and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or
>
> Effective July 1, 2017, participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

Investments are reported at fair value.

As of December 31, 2018, the Corporation's allocation of investments is the following:

		Maturities (in years)	
	Fair Value	Less than 1	1-3
U.S. Treasury Notes	$ 50,273	$ 22,947	$ 27,326
State of Ohio Bonds	8,554	2,319	6,235
Negotiable Certificates of Deposit	41,933	10,254	31,679
Total Portfolio	$ 100,760	$ 35,520	$ 65,240

As of December 31, 2017, the Corporation's allocation of investments is the following:

		Maturities (in years)	
	Fair Value	Less than 1	1-3
U.S. Treasury Notes	$ 28,798	$ 4,690	$ 24,108
Negotiable Certificates of Deposit	16,263	8,799	7,464
Total Portfolio	$ 45,061	$ 13,489	$ 31,572

Note 3: Cash and Cash Equivalents (continued)

Investments (continued)

The Corporation 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 Corporation has the following recurring fair value measurements as of December 31, 2018:

- Negotiable Certificates of Deposit are measured based on Level 2 inputs using a matrix pricing method.
- State of Ohio Bonds 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.

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 State of Ohio bonds carry a rating of Aa1 by Moody's. The negotiable certificates of deposit not rated.

Note 3: Cash and Cash Equivalents (continued)

Investments (continued)

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.

	Percentage of Investments	
Investment Issuer	2018	2017
U.S. Treasury Notes	49.89%	63.91%
State of Ohio Bonds	8.49%	0.00%
Negotiable Certificates of Deposit	41.62%	36.09%

Note 4: Mortgage Loans Receivable, Net

Mortgage loans receivable 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, 2018 and 2017 were as follows:

	2018	2017
Gross mortgage loans receivable	$ 54,939	$ 81,402
Allowance for doubtful accounts	-	(8,666)
Mortgage loans receivable, net	$ 54,939	$ 72,736

Contractual maturities of the net mortgage loans receivable were as follows at December 31, 2018:

	Principal	Interest
2019	$ 6,934	$ 1,321
2020	7,104	1,151
2021	7,279	976
2022	7,459	797
2023	7,643	611
Thereafter	18,520	2,348
	$ 54,939	$ 7,204

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2018, was a follows:

	Balance 12/31/17	Additions	Disposals	Balance 12/31/18
Capital assets being depreciated:				
Leasehold improvements, Dealership	$ -	$ 152,498	$ -	$ 152,498
Less accumulated depreciation:				
Leasehold improvements, Dealership	-	(7,262)	-	(7,262)
Capital assets, net	$ -	$ 145,236	$ -	$ 145,236

These assets are being depreciated over the remaining life of the Dealership operating lease. At December 31, 2017 the Corporation did not have any capital assets.

Note 6: Long-term Debt

Long-term debt is comprised of the following:

	Balance 12/31/17	Additions	Deletions	Balance 12/31/18	Due Within One Year
Loan from City of Shaker Heights, due January 2020, 1% interest	$ 27,200	$ -	$ -	$ 27,200	$ -
Loan from Village Capital Corporation, due June 2028, 5% interest	-	115,500	1,609	113,891	9,185
Total	$ 27,200	$ 115,500	$ 1,609	$ 141,091	$ 9,185

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 and there is no prepayment penalty for early principal payments.

In June 2018, the Village Capital Corporation loaned the Corporation $115,500 with an interest rate of five percent to fund costs associated with certain leasehold improvements to the Dealership. The loan has a ten-year term and requires monthly payments of principal and interest. There is no prepayment penalty for early principal payments. This loan is secured by a mortgage on the parcel located at 3630 Lee Road and assignment of lease and rents at the Dealership.

Note 6: Long-term Debt (continued)

The aggregate amounts of maturities on long-term debt as of December 31, 2018 are as follows:

	Principal	Interest
2019	$ 9,185	$ 5,486
2020	36,855	6,634
2021	10,149	4,522
2022	10,668	4,003
2023	11,214	3,457
Thereafter	63,020	8,067
	$ 141,091	$ 32,169

Note 7: Lease Obligations

3558 Lee Road: The Corporation entered into a lease of this property with the City of Shaker Heights on July 1, 2016, and the Lease was extended by its terms through December 31, 2018. Rental for the initial term was $1.50 per year. In July 2018, the lease agreement was extended until December 31, 2028. Rent for the extension is $1.00 per year. This lease is accounted for as an operating lease.

Note 8: 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 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 and another $503 in 2017. No contributions were made in 2018. The Corporation's share of the profits and losses was 36% at December 2018 and 2017, respectively. In 2017, the Corporation's share of the 2017 loss was $7,937. In 2018, the Corporation's share of the 2018 income was $2,984. The Corporation's equity interest was $117,063 and $120,047, at December 2018 and 2017, respectively, which represents 36% of the total equity of the LLC.

The LLC has not prepared publicly available financial statements as of December 31, 2018.

Note 9: Related Party

The City donated $10,000 and $75,000 to the Corporation during 2017 and 2018, respectively.

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated October 25, 2019.

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 report is not suitable for any other purpose.

Keith Faber
Auditor of State
Columbus, Ohio

October 25, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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
NOVEMBER 26, 2019