



OHIO AUDITOR OF STATE  
**KEITH FABER**





**SHAKER HEIGHTS DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY  
DECEMBER 31, 2020 AND 2019**

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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, 2020 and 2019, 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, as of December 31, 2020 and 2019, 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.

**Emphasis of Matter**

As discussed in Note 10 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Corporation. 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 December 27, 2021, 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  
Auditor of State  
Columbus, Ohio

December 27, 2021

# Shaker Heights Development Corporation

## Management's Discussion and Analysis

### For the Years Ended December 31, 2020 and 2019

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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 \$667,537 and \$543,717 on December 31, 2020 and 2019, respectively.

The Corporation's revenues decreased \$84,404 from 2019 to 2020 and increased \$99,641 from 2018 to 2019. The Corporation's expenses decreased \$97,666 from 2019 to 2020 and increased \$59,225 from 2018 to 2019.

In 2020, the Corporation received \$15,400 in Paycheck Protection Program funding. The Corporation also sold its asset held for resale and purchased a property on Lee Road.

In 2019 the Corporation sold its share in Nursery Partners LLC which is considered a joint venture and used the proceeds, \$130,000, to invest in Shaker REDO, which is also considered a joint venture.

#### **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, 2020 and 2019

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#### NET POSITION

Table 1 summarizes the net position of the Corporation.

TABLE 1

|                                  | <u>2020</u>       | <u>2019</u>       | <u>2018</u>       |
|----------------------------------|-------------------|-------------------|-------------------|
| Assets:                          |                   |                   |                   |
| Current assets                   | \$ 702,644        | \$ 646,656        | \$ 315,530        |
| Non-current assets               | <u>392,492</u>    | <u>313,831</u>    | <u>265,283</u>    |
| Total assets                     | <u>1,095,136</u>  | <u>960,487</u>    | <u>580,813</u>    |
| Liabilities:                     |                   |                   |                   |
| Current liabilities              | 300,490           | 294,519           | 15,748            |
| Long-term liabilities:           |                   |                   |                   |
| Due in more than one year        | <u>127,109</u>    | <u>122,251</u>    | <u>131,906</u>    |
| Total liabilities                | <u>427,599</u>    | <u>416,770</u>    | <u>147,654</u>    |
| Net position:                    |                   |                   |                   |
| Net investment in capital assets | 155,424           | 75,545            | 31,345            |
| Restricted                       | 13,692            | 22,037            | 23,700            |
| Unrestricted                     | <u>498,421</u>    | <u>446,135</u>    | <u>378,114</u>    |
| Total net position               | \$ <u>667,537</u> | \$ <u>543,717</u> | \$ <u>433,159</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>2020</u>       | <u>2019</u>       | <u>2018</u>       |
|-----------------------------------|-------------------|-------------------|-------------------|
| Operating revenues                | \$ 261,159        | \$ 513,823        | \$ 414,703        |
| Operating expenses                | <u>305,243</u>    | <u>401,434</u>    | <u>345,651</u>    |
| Operating (loss) income           | (44,084)          | 112,389           | 69,052            |
| Non-operating revenues            | 172,202           | 3,942             | 3,421             |
| Non-operating expenses            | <u>(4,298)</u>    | <u>(5,773)</u>    | <u>(2,331)</u>    |
| Changes in net position           | 123,820           | 110,558           | 70,142            |
| Net position at beginning of year | <u>543,717</u>    | <u>433,159</u>    | <u>363,017</u>    |
| Net position at end of year       | \$ <u>667,537</u> | \$ <u>543,717</u> | \$ <u>433,159</u> |



# **Shaker Heights Development Corporation**

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

### **For the Years Ended December 31, 2020 and 2019**

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

Revenues decreased by \$84,404 from 2019 to 2020 and increased \$99,641 from 2018 to 2019. The decrease in revenue in 2020 was due to a decrease in contributions and grants. Contribution and grants decreased as the Corporation received funds from the City of Shaker Heights in 2019 to be used for property purchases. The increase in revenue in 2019 was due to an increase in contributions and grants. Contribution and grants increased as the Corporation received funds from the City of Shaker Heights to be used for property purchases.

Expenses decreased by \$97,666 from 2019 to 2020 and increased by \$59,225 from 2018 to 2019. The decrease in expense in 2020 was mainly due to a decrease in expenses related to the Winteractive Festival. The increase in expense in 2019 was mainly due to redevelopment of streetscapes within in the City of Shaker Heights.

#### **CAPITAL ASSETS**

The Corporation has capital assets of \$253,952 at December 31, 2020. The Corporation has capital assets of \$180,251 at December 31, 2019. Additional information can be found in Note 5.

#### **DEBT ADMINISTRATION**

At December 31, 2020 and 2019, the Corporation had \$141,128 and \$131,906, respectively, in outstanding debt related to advances from the City of Shaker Heights, PPP loan from KeyBank and a loan from Village Capital Corporation. Additional information can be found in Note 6.

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

At December 31, 2020 and 2019 the Corporation had total assets of \$1,095,136 and \$960,487 and total net position of \$667,537 and \$543,717, respectively. This resulted in an increase in net position of \$123,820 for 2020 and an increase of \$110,558 for 2019. 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 Kandis Williams, President of the Corporation, 3558 Lee Road, Shaker Heights, Ohio 44120.

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# Shaker Heights Development Corporation

## Statements of Net Position

December 31, 2020 and 2019

|   | <u>2020</u>       | <u>2019</u>       |
|---|-------------------|-------------------|
| Assets:   |                   |                   |
| Current:  |                   |                   |
| Cash and cash equivalents                       | \$ 676,451        | \$ 358,886        |
| Accounts receivable, net                        | 3,800             | 1,400             |
| Mortgage loans receivable, net                  | 22,393            | 33,981            |
| Asset held for resale                           | -                 | 252,389           |
| Total current assets                            | <u>702,644</u>    | <u>646,656</u>    |
| Non-current:                                    |                   |                   |
| Investment in joint venture                     | 138,540           | 133,580           |
| Non-depreciable capital assets                  | 29,041            | 14,078            |
| Depreciable capital assets, net                 | <u>224,911</u>    | <u>166,173</u>    |
| Total non-current assets                        | <u>392,492</u>    | <u>313,831</u>    |
| Total assets                                    | <u>1,095,136</u>  | <u>960,487</u>    |
| Liabilities:                                    |                   |                   |
| Current liabilities:                            |                   |                   |
| Accounts payable                                | 6,294             | 6,071             |
| Accrued wages                                   | 2,862             | 2,161             |
| Intergovernmental payable                       | 275,000           | 275,000           |
| Interest payable                                | 2,315             | 1,632             |
| Loans payable                                   | <u>14,019</u>     | <u>9,655</u>      |
| Total current liabilities                       | <u>300,490</u>    | <u>294,519</u>    |
| Long-term liabilities (net of current portion): |                   |                   |
| Loans payable                                   | <u>127,109</u>    | <u>122,251</u>    |
| Total liabilities                               | <u>427,599</u>    | <u>416,770</u>    |
| Net position:                                   |                   |                   |
| Net investment in capital assets                | 155,424           | 75,545            |
| Restricted                                      | 13,692            | 22,037            |
| Unrestricted                                    | <u>498,421</u>    | <u>446,135</u>    |
| Total net position                              | <u>\$ 667,537</u> | <u>\$ 543,717</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, 2020 and 2019

|   | <u>2020</u>       | <u>2019</u>       |
|---|-------------------|-------------------|
| Operating revenues:                     |                   |                   |
| Contributions and grants                | \$ 119,790        | \$ 393,394        |
| Loan interest income                    | 1,100             | 648               |
| Income on investment in joint venture   | 4,960             | 13,533            |
| Property income                         | 13,500            | -                 |
| Dealership income                       | 121,809           | 106,248           |
| Total operating revenues                | <u>261,159</u>    | <u>513,823</u>    |
| Operating expenses:                     |                   |                   |
| Grant                                   | 23,500            | 125,886           |
| Administration                          | 119,417           | 112,827           |
| Fundraising                             | 573               | 58,441            |
| Property expenses                       | 50,334            | -                 |
| Dealership expenses                     | 95,011            | 89,295            |
| Depreciation                            | 16,408            | 14,985            |
| Total operating expenses                | <u>305,243</u>    | <u>401,434</u>    |
| Operating (loss) income                 | <u>(44,084)</u>   | <u>112,389</u>    |
| Non-operating revenues (expenses):      |                   |                   |
| Gain on sale of asset                   | 169,918           | -                 |
| Investment income                       | 2,284             | 3,942             |
| Interest expense                        | (4,298)           | (5,773)           |
| Total non-operating revenues (expenses) | <u>167,904</u>    | <u>(1,831)</u>    |
| Change in net position                  | 123,820           | 110,558           |
| Net position at beginning of year       | <u>543,717</u>    | <u>433,159</u>    |
| Net position at end of year             | <u>\$ 667,537</u> | <u>\$ 543,717</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, 2020 and 2019

|   | <u>2020</u>       | <u>2019</u>       |
|---|-------------------|-------------------|
| Cash flows from operating activities:                         |                   |                   |
| Cash receipts for contributions and grants                    | \$ 119,790        | \$ 318,394        |
| Cash receipts for loans                                       | 12,688            | 21,606            |
| Cash receipts for the Dealership                              | 132,909           | 107,048           |
| Proceeds from liquidation of joint venture                    | -                 | 130,000           |
| Cash contributed to joint venture                             | -                 | (130,000)         |
| Cash payments for education                                   | (23,500)          | (125,886)         |
| Cash payments for personal services                           | (92,581)          | (90,496)          |
| Cash payments for goods and services                          | (55,948)          | (77,758)          |
| Cash payments for the Dealership                              | (95,011)          | (89,295)          |
| Net cash (used) provided by operating activities              | <u>(1,653)</u>    | <u>63,613</u>     |
| Cash flows from investing activities:                         |                   |                   |
| Interest received   | <u>2,284</u>      | <u>3,942</u>      |
| Cash flows from capital and related financing activities:     |                   |                   |
| Acquisition of assets   | (7,905)           | (50,000)          |
| Proceeds from sale of asset held for sale                     | 319,232           | -                 |
| Purchase of asset held for sale                               | -                 | (252,389)         |
| Advances from City of Shaker Heights                          | -                 | 370,000           |
| Repayment of advances to City of Shaker Heights               | -                 | (20,000)          |
| Proceeds from debt  | 15,400            | -                 |
| Principal paid on debt  | (6,178)           | (9,185)           |
| Interest paid   | (3,615)           | (5,486)           |
| Net cash provided by capital and related financing activities | <u>316,934</u>    | <u>32,940</u>     |
| Net change in cash  | 317,565           | 100,495           |
| Cash and cash equivalents at beginning of year                | <u>358,886</u>    | <u>258,391</u>    |
| Cash and cash equivalents at end of year                      | <u>\$ 676,451</u> | <u>\$ 358,886</u> |

(continued)

The accompanying notes are an integral part of these financial statements.

# Shaker Heights Development Corporation

## Statements of Cash Flows (continued)

### For the Years Ended December 31, 2020 and 2019

|   | <u>2020</u>       | <u>2019</u>      |
|---|-------------------|------------------|
| <i>Reconciliation of operating (loss) income to net cash from operating activities:</i> |                   |                  |
| Operating (loss) income   | \$ (44,084)       | \$ 112,389       |
| Adjustments:  |                   |                  |
| Depreciation  | 16,408            | 14,985           |
| Contribution restricted for capital acquisition   | -                 | (75,000)         |
| Property taxes settled with proceeds from sale of asset held for sale                   | 20,871            | -                |
| Changes in operating assets/liabilities:  |                   |                  |
| Decrease in loans receivable  | 11,588            | 20,958           |
| (Increase) decrease in accounts receivable, net   | (2,400)           | 800              |
| Increase in investment in joint venture   | (4,960)           | (13,533)         |
| Increase in accounts payable  | 223               | 2,942            |
| Increase in accrued wages   | 701               | 72               |
| Net cash (used) provided by operating activities  | <u>\$ (1,653)</u> | <u>\$ 63,613</u> |
| Non cash capital and related financing activities:                                      |                   |                  |
| Property purchased with proceeds from sale of asset held for sale                       | \$ 82,204         | \$ -             |
| Settlement of property taxes with proceeds from sale of asset held for sale             | 20,871            | -                |

The accompanying notes are an integral part of these financial statements.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements

### December 31, 2020 and 2019

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#### **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.

The Corporation was associated with one joint venture during 2020. See Note 8 for additional information.

The Corporation is also the sole member of the following LLCs: 3612 Lee Road LLC, 3725 Lee Road Shaker Heights LLC, and SHDC Nursery LLC. The first two entities are used by the Corporation for property purchases while the last LLC was used for investing in a joint venture in 2019. The activity for these Corporations is incorporated into these financial statements as the Corporation is the sole member of these entities.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2020 and 2019**

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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’s Discussion and 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.



# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2020 and 2019**

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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 revenues 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 2020 and 2019, investments were limited to negotiable certificates of deposit, U.S. Treasury Notes, and bonds issued by the State of Ohio.

Investments are reported at fair value which is based on quoted market prices.

#### 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.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2020 and 2019**

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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 acquisition values as of the date received. The Corporation's capitalization threshold is \$10,000 and assets are depreciated using the straight-line basis method. 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. Buildings and Dealership improvements are depreciated over 39 years, and the remaining life of the Dealership operating lease, respectively.

#### Assets Held for Resale

Assets held for resale represented land and building, located at 3505 Lee Road, purchased by the Corporation, which was sold in 2020.

#### Investment in Joint Venture

The investment in the Nursery Partners LLC and Shaker REDO LLC joint venture are 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.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

**December 31, 2020 and 2019**

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### 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.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

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

##### Deposits (continued)

At December 31, 2020, the carrying amount of the Corporation's deposits was \$635,720 (including \$233 of petty cash) and the bank balance was \$635,487, of which \$418,291 is maintained in the Corporation bank accounts and \$217,196 is maintained in the pool of cash and cash equivalents with the other City deposits. At December 31, 2019, the carrying amount of the Corporation's deposits was \$278,344 (including \$120 of petty cash) and the bank balance was \$278,224, of which \$91,997 is maintained in the Corporation bank accounts and \$186,227 is maintained in the pool of cash and cash equivalents with the other City deposits. At times the bank deposit accounts may exceed federal insured limits. At 2020 and 2019 year-end, none of the Corporation's total bank balance was exposed to custodial credit risk.

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, 2020, 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                | \$ 11,970         | \$ 11,970                    | \$ -             |
| State of Ohio Bonds                | 2,694             | 607                          | 2,087            |
| Negotiable Certificates of Deposit | <u>26,067</u>     | <u>17,966</u>                | <u>8,101</u>     |
| Total Portfolio                    | <u>\$ 40,731</u>  | <u>\$ 30,543</u>             | <u>\$ 10,188</u> |

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

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

##### Investments (continued)

As of December 31, 2019, 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                | \$ 27,758         | \$ 14,407                    | \$ 13,351        |
| State of Ohio Bonds                | 8,403             | 5,362                        | 3,041            |
| Negotiable Certificates of Deposit | <u>44,381</u>     | <u>14,302</u>                | <u>30,079</u>    |
| Total Portfolio                    | \$ <u>80,542</u>  | \$ <u>34,071</u>             | \$ <u>46,471</u> |

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, 2020:

- 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.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

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#### 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.

| <u>Investment Issuer</u>           | <u>Percentage of Investments</u> |             |
|------------------------------------|----------------------------------|-------------|
|                                    | <u>2020</u>                      | <u>2019</u> |
| U.S. Treasury Notes                | 29.39%                           | 34.46%      |
| State of Ohio Bonds                | 6.61%                            | 10.43%      |
| Negotiable Certificates of Deposit | 64.00%                           | 55.11%      |

#### 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, 2020 and 2019 were as follows:

|                                 | <u>2020</u>      | <u>2019</u>      |
|---------------------------------|------------------|------------------|
| Gross mortgage loans receivable | \$ 22,393        | \$ 33,981        |
| Allowance for doubtful accounts | -                | -                |
| Mortgage loans receivable, net  | \$ <u>22,393</u> | \$ <u>33,981</u> |

Contractual maturities of the net mortgage loans receivable were as follows at December 31, 2020:

|            | <u>Principal</u> | <u>Interest</u> |
|------------|------------------|-----------------|
| 2021       | \$ 2,975         | \$ 560          |
| 2022       | 3,466            | 513             |
| 2023       | 3,553            | 424             |
| 2024       | 3,057            | 337             |
| 2025       | 1,877            | 271             |
| Thereafter | <u>7,465</u>     | <u>1,857</u>    |
|            | \$ <u>22,393</u> | \$ <u>3,962</u> |

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

#### Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2020, was as follows:

|  | <u>Balance</u><br><u>12/31/19</u> | <u>Additions</u>        | <u>Disposals</u>   | <u>Balance</u><br><u>12/31/20</u> |
|--|-----------------------------------|-------------------------|--------------------|-----------------------------------|
| Capital assets not being depreciated:  |                                   |                         |                    |                                   |
| Land                                   | \$ <u>14,078</u>                  | \$ <u>14,963</u>        | \$ <u>-</u>        | \$ <u>29,041</u>                  |
| Capital assets being depreciated:      |                                   |                         |                    |                                   |
| Leasehold improvements, Dealership     | 152,498                           | -                       | -                  | 152,498                           |
| Buildings                              | <u>35,922</u>                     | <u>75,146</u>           | <u>-</u>           | <u>111,068</u>                    |
| Total capital assets being depreciated | <u>188,420</u>                    | <u>75,146</u>           | <u>-</u>           | <u>263,566</u>                    |
| Less accumulated depreciation:         |                                   |                         |                    |                                   |
| Leasehold improvements, Dealership     | (21,786)                          | (14,524)                | -                  | (36,310)                          |
| Buildings                              | <u>(461)</u>                      | <u>(1,884)</u>          | <u>-</u>           | <u>(2,345)</u>                    |
| Total accumulated depreciation         | <u>(22,247)</u>                   | <u>(16,408)</u>         | <u>-</u>           | <u>(38,655)</u>                   |
| Total assets being depreciated, net    | <u>166,173</u>                    | <u>58,738</u>           | <u>-</u>           | <u>224,911</u>                    |
| Capital assets, net                    | \$ <u><u>180,251</u></u>          | \$ <u><u>73,701</u></u> | \$ <u><u>-</u></u> | \$ <u><u>253,952</u></u>          |

Capital assets activity for the year ended December 31, 2019, was as follows:

|  | <u>Balance</u><br><u>12/31/18</u> | <u>Additions</u>        | <u>Disposals</u>   | <u>Balance</u><br><u>12/31/19</u> |
|--|-----------------------------------|-------------------------|--------------------|-----------------------------------|
| Capital assets not being depreciated:  |                                   |                         |                    |                                   |
| Land                                   | \$ <u>-</u>                       | \$ <u>14,078</u>        | \$ <u>-</u>        | \$ <u>14,078</u>                  |
| Capital assets being depreciated:      |                                   |                         |                    |                                   |
| Leasehold improvements, Dealership     | 152,498                           | -                       | -                  | 152,498                           |
| Buildings                              | <u>-</u>                          | <u>35,922</u>           | <u>-</u>           | <u>35,922</u>                     |
| Total capital assets being depreciated | <u>152,498</u>                    | <u>35,922</u>           | <u>-</u>           | <u>188,420</u>                    |
| Less accumulated depreciation:         |                                   |                         |                    |                                   |
| Leasehold improvements, Dealership     | (7,262)                           | (14,524)                | -                  | (21,786)                          |
| Buildings                              | <u>-</u>                          | <u>(461)</u>            | <u>-</u>           | <u>(461)</u>                      |
| Total accumulated depreciation         | <u>(7,262)</u>                    | <u>(14,985)</u>         | <u>-</u>           | <u>(22,247)</u>                   |
| Total assets being depreciated, net    | <u>145,236</u>                    | <u>20,937</u>           | <u>-</u>           | <u>166,173</u>                    |
| Capital assets, net                    | \$ <u><u>145,236</u></u>          | \$ <u><u>35,015</u></u> | \$ <u><u>-</u></u> | \$ <u><u>180,251</u></u>          |

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

#### Note 6: Long-term Debt

Long-term debt is comprised of the following as of December 31, 2020:

|  | Balance<br><u>12/31/19</u> | Additions        | Deletions       | Balance<br><u>12/31/20</u> | Due<br>Within<br><u>One Year</u> |
|--|----------------------------|------------------|-----------------|----------------------------|----------------------------------|
| Loan from City of Shaker Heights,<br>due January 2023, 1% interest   | \$ 27,200                  | \$ -             | \$ -            | \$ 27,200                  | \$ -                             |
| Paycheck Protection Program Loan,<br>due April 2022, 1% interest     | -                          | 15,400           | -               | 15,400                     | 3,183                            |
| Loan from Village Capital Corporation,<br>due June 2028, 5% interest | <u>104,706</u>             | <u>-</u>         | <u>6,178</u>    | <u>98,528</u>              | <u>10,836</u>                    |
| Total  | <u>\$ 131,906</u>          | <u>\$ 15,400</u> | <u>\$ 6,178</u> | <u>\$ 141,128</u>          | <u>\$ 14,019</u>                 |

Long-term debt is comprised of the following as of December 31, 2019:

|  | Balance<br><u>12/31/18</u> | Additions   | Deletions       | Balance<br><u>12/31/19</u> | Due<br>Within<br><u>One Year</u> |
|--|----------------------------|-------------|-----------------|----------------------------|----------------------------------|
| Loan from City of Shaker Heights,<br>due January 2023, 1% interest   | \$ 27,200                  | \$ -        | \$ -            | \$ 27,200                  | \$ -                             |
| Loan from Village Capital Corporation,<br>due June 2028, 5% interest | <u>113,891</u>             | <u>-</u>    | <u>9,185</u>    | <u>104,706</u>             | <u>9,655</u>                     |
| Total  | <u>\$ 141,091</u>          | <u>\$ -</u> | <u>\$ 9,185</u> | <u>\$ 131,906</u>          | <u>\$ 9,655</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. In 2020 the loan was extended for 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. In response to the COVID pandemic, Village Capital Corporation deferred April through June 2020 payments.

In April 2020, the Corporation received \$15,400 in Paycheck Protection Program (PPP) funding. The terms of the loan agreement indicate that the Corporation must utilize the proceeds to fund/offset qualifying expenses over either an 8- or 24-week period and that they maintain their full-time equivalent employment as specified in the terms of the agreement. The terms of the agreement specify that the Corporation must repay any unforgiven principal of the loan plus interest, which accrues at 1%.



# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

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#### **Note 6: Long-term Debt (continued)**

The loan and interest may be forgiven if the Corporation meets the conditions for such forgiveness outlined in the PPP. If the funding is not forgiven, the maturity date is April 27, 2022, and monthly payments would begin at the conclusion of the deferment period as specified in the PPP.

The aggregate amounts of maturities on long-term debt as of December 31, 2020 are as follows:

|            | <u>Principal</u>  | <u>Interest</u>  |
|------------|-------------------|------------------|
| 2021       | \$ 14,019         | \$ 5,117         |
| 2022       | 22,753            | 4,173            |
| 2023       | 38,275            | 6,045            |
| 2024       | 11,641            | 3,030            |
| 2025       | 12,237            | 2,434            |
| Thereafter | <u>42,203</u>     | <u>3,416</u>     |
|            | <u>\$ 141,128</u> | <u>\$ 24,215</u> |

#### **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 “Nursery Partners”) is a joint venture among the Corporation and a private member. Nursery Partners 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 Nursery Partners in 2016 as part of its initial capital contribution and another \$503 in 2017. No contributions were made in 2018 or 2019. In 2019, the Corporation’s share was bought out of the joint investment and the proceeds were used to fund a new joint investment. This resulted in the Corporation recognizing a gain on the joint venture of \$9,953.

Shaker REDO LLC (the “REDO”) is a joint venture among the Corporation and private members. REDO was formed to acquire, own, hold, sell, lease, transfer, exchange, manage and operate certain premises situated in the City of Shaker Heights.

# Shaker Heights Development Corporation

## Notes to Basic Financial Statements (continued)

### December 31, 2020 and 2019

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#### **Note 8: Investment in Joint Venture (continued)**

The Corporation contributed \$130,000 to REDO in 2019 as part of its initial capital contribution. No contributions were made in 2020. The Corporation's share of the profits and losses was 38% and 40% at December 2020 and 2019, respectively. In 2019, the Corporation's share of the 2019 income was \$3,580. In 2020, the Corporation's share of the 2020 income was \$4,960. The Corporation's equity interest was \$138,540 at December 2020, which represents 38% of the total equity of REDO at December 2020.

REDO has not prepared publicly available financial statements as of December 31, 2020.

#### **Note 9: Related Party**

The City donated \$75,000 to the Corporation during both 2020 and 2019. In 2019, the City provided the Corporation \$370,000 to be used to purchase property. Under the terms of the agreements, if the Corporation sells the property they are required to repay the City. During 2019, the Corporation returned \$20,000 as it was determined the Corporation was unable to purchase the intended property. Also during 2019, the Corporation purchased property with the plan to sell the parcel that was acquired using the City funds. The Corporation sold the parcel in 2020 and as such, an intergovernmental payable of \$275,000 is due to the City. Finally, \$75,000 was used to purchase property for which the Corporation is still holding as of December 31, 2020.

#### **Note 10: COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Corporation. The Corporation's investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the Corporation's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated. Additional funding will be available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

#### **Note 11: Subsequent Events**

In September 2021, the first PPP loan was forgiven.

In April 2021, the Corporation received approval for a second draw of \$15,900 in PPP funding. The terms of the loan agreement indicate that the Corporation must utilize the proceeds to fund/offset qualifying expenses over either an 8- or 24-week period and that they maintain their full-time equivalent employment as specified in the terms of the agreement. The terms of the agreement specify that the Corporation must repay any unforgiven principal of the loan plus interest, which accrues at 1%. This PPP loan was forgiven in October 2021.

# OHIO AUDITOR OF STATE KEITH FABER



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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, Ohio, (the Corporation) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated December 27, 2021, wherein we noted the financial impact of Covid-19 and the continuing emergency measures may impact subsequent periods of the Corporation.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing 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 financial statements. 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

December 27, 2021

# OHIO AUDITOR OF STATE KEITH FABER



**SHAKER HEIGHTS DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



**Certified for Release 1/18/2022**

88 East Broad Street, Columbus, Ohio 43215  
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This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)