

**DOWNTOWN CLEVELAND IMPROVEMENT
CORPORATION**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015





Dave Yost • Auditor of State

Board of Directors
Downtown Cleveland Improvement Corporation
1010 Euclid Avenue
Cleveland, Ohio 44115

We have reviewed the Report of Independent Auditor's of the Downtown Cleveland Improvement Corporation, Cuyahoga County, prepared by Pease & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Downtown Cleveland Improvement Corporation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 7, 2016

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Audited Financial Statements

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

DECEMBER 31, 2015

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Board of Directors
Downtown Cleveland Improvement Corporation
Cleveland, Ohio

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying financial statements of Downtown Cleveland Improvement Corporation (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2015, and the related statements of revenues, expenses, and other changes in net assets - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Downtown Cleveland Improvement Corporation as of December 31, 2015, and its revenues, expenses, and other changes in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2016, on our consideration of Downtown Cleveland Improvement Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Downtown Cleveland Improvement Corporation's internal control over financial reporting and compliance.

Pease & Associates, LLC

Cleveland, Ohio
June 23, 2016

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

**STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS -
MODIFIED CASH BASIS**

DECEMBER 31, 2015

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

See notes to financial statements.

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

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Revenues from special assessments	\$ -	\$ 3,979,669	\$ 3,979,669
Net assets released from restrictions through satisfaction of program restrictions	3,979,669	(3,979,669)	-
TOTAL REVENUE AND OTHER SUPPORT	3,979,669	-	3,979,669
EXPENSES			
Program services	3,979,669	-	3,979,669
TOTAL EXPENSES	3,979,669	-	3,979,669
CHANGE IN NET ASSETS	-	-	-
NET ASSETS AT BEGINNING OF YEAR	-	5,268	5,268
NET ASSETS AT END OF YEAR	\$ -	\$ 5,268	\$ 5,268

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

EXPENSES - PROGRAM SERVICES	
Funds disbursed to Downtown Cleveland Alliance	<u>\$ 3,979,669</u>
TOTAL EXPENSES	<u><u>\$ 3,979,669</u></u>

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

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

See notes to financial statements.

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

NOTE 1 -- NATURE OF ACTIVITIES

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

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

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

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue recognition: Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets consist of funds which are for future programs and services.

Donated services and facilities: The fair value of services and facilities donated to DCIC during 2015 was not material and; therefore, has not been recorded in the accompanying financial statements.

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

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

Allocation of expenses by function: Amounts in the accompanying statements of functional expenses are allocated entirely to program services. Total expenses for supporting services, which are entirely donated to DCIC, during 2015 were not material, and; therefore, have not been recorded in the accompanying financial statements.

Subsequent events: In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 23, 2016, the date the financial statements were available to be issued.

NOTE 3 -- SPECIAL IMPROVEMENT DISTRICT

Under the Services Plan with the City, DCIC provides a comprehensive array of services for the SID. To fund the Services Plan, the City remits special assessments collected from Downtown Cleveland property owners to DCIC. The special assessments are invoiced to the property owners annually and remitted as contributions to DCIC within 30 days of receipt by the City. The total assessments each year are equal to the estimated cost of the Services Plan and are allocated to the property owners using a formula based upon property value and linear front footage. To accommodate cost of living and program changes, a 3% annual increase to the assessment was budgeted for each successive year through 2015. Of the cumulative budgeted assessments from inception in 2006 through 2015 of \$34,679,000, DCIC has collected in cash from the City during 2006 through 2015 a total of \$33,607,000.

As of December 31, 2015, net of deductions by the City for certain authorized expenses, there is approximately \$1,033,000 still outstanding, which relates to the following years:

2015	\$ 712,000
2014	74,000
2013	55,000
2012	40,000
2011	13,000
2010	38,000
2009	8,000
2008	53,000
2007	40,000
2006	-
	\$ 1,033,000

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

DCIC has a contract with DCA whereby DCA provides administrative and management services for the SID. Under the arrangement, DCA has a contract with a third-party to provide services under the Services Plan. DCIC remits the special assessments received, net of expenses, as grants to DCA and DCA holds the net special assessment funds in separate bank and investment accounts. Funds disbursed to DCA during 2015 and 2014 totaled \$3,979,669 and \$3,991,770, respectively. In May 2016, DCIC extended its contract with DCA through March 2021.

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

NOTE 4 -- FEDERAL INCOME TAXES

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



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Board of Directors
Downtown Cleveland Improvement Corporation
Cleveland, Ohio

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Downtown Cleveland Improvement Corporation (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2015, and the related statements of revenues, expenses, and other changes in net assets - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Downtown Cleveland Improvement Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Downtown Cleveland Improvement Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Downtown Cleveland Improvement Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Downtown Cleveland Improvement Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pease & Associates, LLC

Cleveland, Ohio
June 23, 2016

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified:	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

The Organization did not expend \$750,000 or more in federal awards during the period ended December 31, 2015, and therefore, is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Section II -- Financial Statement Findings

No significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5 of *Government Auditing Standards* were identified.

Section III – Federal Award Findings and Questioned Costs

Not applicable



Dave Yost • Auditor of State

DOWNTOWN CLEVELAND IMPROVEMENT CORPORATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 20, 2016**