

Euclid Avenue Development Corporation

**Financial Statements
June 30, 2012 and 2011**



Dave Yost • Auditor of State

Board of Directors
Euclid Avenue Development Corporation
2121 Euclid Avenue
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor's Report* of the Euclid Avenue Development Corporation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Euclid Avenue Development 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

January 10, 2013

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Euclid Avenue Development Corporation

Financial Statements

June 30, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Euclid Avenue Development Corporation
Cleveland, Ohio

We have audited the accompanying statements of financial position of the Euclid Avenue Development Corporation (the "Corporation") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Euclid Avenue Development Corporation

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 27, 2012

Euclid Avenue Development Corporation

Statements of Financial Position

June 30, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,707,943	\$ 2,021,827
Cash held by the University	<u>397,056</u>	<u>119,444</u>
Total cash and cash equivalents	2,104,999	2,141,271
Student accounts receivable, net	54,891	89,027
Other receivables	221,408	118,145
Current portion of leases receivable	205,000	-
Prepaid expenses	<u>21,927</u>	<u>12,935</u>
Total current assets	2,608,225	2,361,378
Property and equipment:		
Land	1,146,460	1,146,460
Building	70,448,479	54,671,438
Building improvements	169,088	98,836
Furniture, fixtures, and equipment	2,958,995	2,217,545
Construction in progress	<u>-</u>	<u>18,071,217</u>
	74,723,022	76,205,496
Less: accumulated depreciation	<u>(7,068,247)</u>	<u>(5,071,764)</u>
Property and equipment, net	67,654,775	71,133,732
Other assets:		
Bond proceeds/investments	15,587,728	19,951,814
Leases receivable	21,365,000	14,500,000
Deferred bond issuance costs, net of accumulated amortization of \$612,649 and \$498,372 at June 30, 2012 and 2011, respectively	<u>2,958,934</u>	<u>3,073,211</u>
Total other assets	<u>39,911,662</u>	<u>37,525,025</u>
Total assets	\$ <u>110,174,662</u>	\$ <u>111,020,135</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Financial Position (continued)

June 30, 2012 and 2011

Liabilities and Net Assets (Deficit)

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Current portion of bonds payable	\$ 790,000	\$ 660,000
Current portion of note payable	60,000	60,000
Accounts payable	484,164	2,694,757
Accrued interest	1,055,025	1,001,229
Accrued other	28,513	50,037
Deferred revenue	155,707	120,679
Security deposits	<u>182,665</u>	<u>147,610</u>
Total current liabilities	2,756,074	4,734,312
Noncurrent liabilities:		
Deferred revenue	1,313,847	1,351,385
Bonds payable, less current portion	104,160,000	105,050,000
Note payable, less current portion	<u>1,561,180</u>	<u>1,621,180</u>
Total noncurrent liabilities	<u>107,035,027</u>	<u>108,022,565</u>
Total liabilities	109,791,101	112,756,877
Net assets (deficit):		
Unrestricted	<u>383,561</u>	<u>(1,736,742)</u>
Total liabilities and net assets (deficit)	\$ <u>110,174,662</u>	\$ <u>111,020,135</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Activities

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues and gains:		
Rental income:		
Students	\$ 7,714,137	\$ 5,703,723
University	929,559	697,988
Other	161,525	176,949
Maintenance fees – University	310,709	234,426
Investment income, net	105,298	107,827
Gain on sale of assets	1,492,083	-
Other	345,823	210,751
Total revenues and gains	<u>11,059,134</u>	<u>7,131,664</u>
Expenses and losses:		
Interest	3,053,505	3,187,371
Depreciation and amortization	2,260,689	1,697,200
Utilities	1,166,712	633,204
Contracted personnel	1,333,208	1,092,582
Management fees	317,293	238,096
Maintenance	414,523	347,319
General and administrative	168,001	159,900
Other operating	96,056	248,398
Marketing	51,005	41,006
Accounting	22,507	28,820
Reserve allowance	50,797	31,241
Insurance	4,535	1,835
Total expenses and losses	<u>8,938,831</u>	<u>7,706,972</u>
Change in net assets (deficit)	2,120,303	(575,308)
Net assets (deficit) – beginning of year	<u>(1,736,742)</u>	<u>(1,161,434)</u>
Net assets (deficit) – end of year	<u>\$ 383,561</u>	<u>\$ (1,736,742)</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets (deficit)	\$ 2,120,303	\$ (575,308)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	2,260,089	1,697,200
Gain on sale of assets	(1,492,083)	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Student accounts receivable	34,136	6,303
Accrued interest and other receivables	(103,263)	(22,117)
Prepaid expenses	(8,992)	912
Increase (decrease) in liabilities:		
Accounts payable	(219,169)	117,722
Accrued interest	53,796	358,299
Accrued other	(21,524)	23,520
Deferred revenue	(2,510)	3,630
Security deposits	<u>35,055</u>	<u>91,930</u>
Net cash provided by operating activities	2,655,838	1,702,091
Cash flows from investing activities:		
Purchases of property and equipment	(6,236,196)	(20,565,688)
Purchases and sales of investments, net	<u>4,364,086</u>	<u>19,793,391</u>
Net cash used by investing activities	(1,872,110)	(772,297)
Cash flow from financing activities:		
Repayment of bonds payable	(760,000)	(635,000)
Repayment of note payable	<u>(60,000)</u>	<u>(60,000)</u>
Net cash used by financing activities	<u>(820,000)</u>	<u>(695,000)</u>
Change in cash and cash equivalents	(36,272)	234,794
Cash and cash equivalents – beginning of year	<u>2,141,271</u>	<u>1,906,477</u>
Cash and cash equivalents – end of year	\$ <u>2,104,999</u>	\$ <u>2,141,271</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Cash Flows (continued)

For the years ended June 30, 2012 and 2011

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$	2,999,709	\$	2,829,072
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Non-cash financing and investing activities:

Amortization of bond issuance costs capitalized into construction in progress	\$	-	\$	25,958
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Change accounts payable related to property and equipment purchases		1,991,424		(1,384,980)
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Recognition of a lease receivable as part of the sale of assets		7,070,000		-
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The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies

Organization

Euclid Avenue Development Corporation (the “Corporation”) was organized primarily to further the educational mission of Cleveland State University (the “University”) by developing and owning housing and parking facilities for the students, faculty, and staff of the University. On July 15, 2011, the Corporation legally changed its name from Euclid Avenue Housing Corporation to Euclid Avenue Development Corporation.

On March 1, 2005, the Corporation leased the Fenn Tower Building, located on the University’s campus, from the University. On March 1, 2005, the Corporation entered into a Development Agreement with American Campus Communities (“ACC”) to plan, design, and construct housing units in Fenn Tower. In addition, the Corporation entered into a Management Agreement with ACC to manage Fenn Tower once construction was completed. On March 17, 2005, the Corporation issued tax-exempt bonds with the Cleveland-Cuyahoga County Port Authority to finance the costs of the project. Fenn Tower was completed in August 2006 and can house up to approximately 430 residents.

On June 1, 2008, the Corporation leased land, owned by the University and located on its campus. On August 22, 2008, the Corporation entered into a design-build agreement to construct a 623-car parking garage on the site. On July 1, 2008, the Corporation entered into a lease agreement with the University to operate the garage. On July 25, 2008, the Corporation issued tax-exempt bonds with the Cleveland-Cuyahoga County Port Authority to finance construction of the garage. Construction of the garage was completed in August 2009.

On March 9, 2009, the Corporation leased land, owned by the University and located on its campus. On August 24, 2009, the Corporation entered into a Development Agreement with ACC to design, construct, and furnish housing units referred to as Euclid Commons. In addition, the Corporation entered into a Management Agreement with ACC to manage Euclid Commons once construction is completed. On December 19, 2009, the Corporation issued tax-exempt bonds with Cuyahoga County to finance the costs of the project. Euclid Commons was completed in September 2011 and can house approximately 600 residents. Part of the project included constructing a 292-car attached parking garage. The Corporation entered into a lease agreement with the University to operate the garage.

On September 1, 2009, the Corporation became owner of a building adjacent to the University’s campus and an accompanying parking facility. The building and parking facility is referred to as “Heritage Suites.” On September 2, 2009, the Corporation entered into a Management Agreement with ACC to manage Heritage Suites. Heritage Suites can house up to 148 residents.

Basis of Presentation

The Corporation follows authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) which established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

The financial statements have been prepared on the accrual basis of accounting.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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 highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with an initial maturity of three months or less to be cash equivalents.

At various times during the years ended June 30, 2012 and 2011, the Corporation's operational cash bank balances exceeded the federally insured limits.

Student Accounts Receivable

Student accounts receivable are uncollateralized obligations due from the University's students for housing related charges. Accounts receivable are stated at the amount billed to the resident. Student account balances are considered delinquent when scheduled payments are missed.

At June 30, 2012 and 2011, the Corporation has recorded \$25,000 and \$40,000, respectively, as an allowance for potential uncollectible student accounts receivable. Management estimates an allowance for uncollectible accounts based upon a review of delinquent accounts and an assessment of the Corporation's historical evidence of collections.

Bond Issuance Costs

Bond issuance costs are capitalized and amortized over the life of the bonds utilizing the straight-line method. Amortization expense totaled \$114,277 and \$107,576 for the years ended June 30, 2012 and 2011, respectively. Annual amortization expense will be approximately \$114,000 per year through June 30, 2042.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is valued at cost when purchased or fair value at the date of donation. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets ranging from 3 to 40 years. Maintenance and repairs are charged against change in net assets when incurred. Additions and major improvements are capitalized. Depreciation expense totaled \$2,145,812 and \$1,589,624 for the years ended June 30, 2012 and 2011, respectively.

The Corporation capitalizes the net interest income or expense incurred during the construction of property. The amount capitalized is determined based upon the interest related to bonds payable and bond proceeds from specific construction projects. During the year ended June 30, 2012, there was no interest income or expense capitalized into construction in progress. During the year ended June 30, 2011, \$317,567 of interest income, net of \$49,556 of interest expense was capitalized to reduce the cost basis of construction in progress.

Security Deposits

Security deposits represent Euclid Commons, Fenn Tower, and Heritage Suites housing deposits made by residents and are shown as a liability in the accompanying statements of financial position.

Deferred Revenue

Deferred revenue represents the unearned portion of rental revenue related to a sublease of property (Note 7) and housing for the summer session.

Management Fees

The Corporation has management agreements with ACC for Fenn Tower, Euclid Commons, and Heritage Suites. The agreements expire at various dates through July 31, 2020 and may be extended upon approval by both parties.

Interest Expense

Interest expense includes interest incurred on the Corporation's note and bonds payable and the associated remarketing fees, letter of credit fees, and fronting fees.

Income Taxes

The Corporation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Uncertain income tax positions are evaluated at least annually by management. The Corporation classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of June 30, 2012 and 2011, the Corporation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the years then ended.

The Corporation files its Federal Form 990 in the U.S. federal jurisdiction and a state registration in the office of the state's attorney general for the State of Ohio. The Organization is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2009.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through September 27, 2012, the date the financial statements were made widely available.

Note 2: Bond Proceeds/Investments

Investments are carried at fair value. At June 30, 2012 and 2011, the Corporation had the following investments:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 12,025,559	\$ 14,395,045
Certificates of deposit	3,562,169	3,562,169
U.S. government securities	-	1,994,600
	<u>\$ 15,587,728</u>	<u>\$ 19,951,814</u>

The bond proceeds are maintained in separate trust accounts as defined by the bond indentures. The remaining bond proceeds/investments will be utilized for the Fenn Tower, parking garages, and Euclid Commons projects. Due to the volume and quick turnover of investments, the purchases and sales of such investments are displayed net in the statements of cash flows.

Note 3: Bonds Payable

On March 17, 2005, the Corporation issued \$34,385,000 of Cleveland-Cuyahoga County Port Authority Bonds ("Series 2005 Bonds"). The proceeds were used to finance the construction and furnishing of housing units in Fenn Tower. The Series 2005 Bonds are serial bonds maturing between 2008 and 2036. Interest rates are fixed and range from 3.0% to 5.0%. The Series 2005 Bonds are subject to a fixed charges coverage ratio.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 3: Bonds Payable (continued)

On July 25, 2008, the Corporation issued \$14,500,000 of Cleveland-Cuyahoga County Port Authority Revenue Bonds (“Series 2008 Bonds”). The proceeds were used to finance the construction of a parking garage. The Series 2008 Bonds are demand bonds maturing at various dates through 2039. Interest rates are determined by the remarketing agent based on a weekly index. At June 30, 2012 and 2011, the variable rate was 0.15%. The bonds are secured by the assignment of rents due from the University.

The Series 2008 Bonds were issued pursuant to a Trust Indenture dated July 1, 2008, between the Cleveland-Cuyahoga County Port Authority and the Trustee. Under the terms of the Reimbursement Agreement dated July 1, 2008, the Corporation entered into a three-year Irrevocable Direct Pay Letter of Credit Agreement with the Trustee, with a stated expiration date of July 25, 2011. The Letter of Credit Agreement with the Trustee was subsequently extended to January 25, 2013.

On December 18, 2009, the Corporation issued a total of \$59,005,000 of Cuyahoga County Revenue Bonds (“Series 2009 Bonds”), consisting of \$51,935,000 of Cuyahoga County Housing Revenue Bonds, Series 2009A and \$7,070,000 of Cuyahoga County Economic Development Revenue Bonds, Series 2009B. The proceeds were used to finance the construction of Euclid Commons, which includes an attached parking garage. The Series 2009 Bonds are demand bonds maturing at various dates through 2039. Interest rates are determined by the remarketing agent based on a weekly index. At June 30, 2012 and 2011, the variable rate was 0.15%. The bonds are secured by the assignment of rents due from the University.

In order to hedge against the risk of rising interest rates on the Series 2009 Bonds, the Corporation has an interest rate cap contract which effectively caps interest at a maximum rate of 6% on a notional amount of \$30,000,000 (expires December 17, 2012). At June 30, 2012 and 2011, the fair market value of the interest rate cap contract represented an asset of \$1 and \$331, respectively, which management has elected not to reflect in the Corporation’s financial statements as the amount is deemed to be immaterial.

The Series 2009 Bonds were issued pursuant to a Trust Indenture dated December 1, 2009, between Cuyahoga County and the Trustee. Under the terms of the Reimbursement Agreement dated December 1, 2009, the Corporation entered into a three-year Irrevocable Direct Pay Letter of Credit Agreement with the Trustee, with a stated expiration date of December 17, 2012.

Maturities of the Series 2005, Series 2008, and Series 2009 bonds for the years ending June 30 are as follows:

2013	\$	790,000
2014		1,505,000
2015		1,655,000
2016		1,815,000
2017		1,975,000
Thereafter		<u>97,210,000</u>
	\$	<u>104,950,000</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 4: Note Payable

	2012	2011
Note payable dated June 16, 2009, due to The Cleveland State University Foundation, Inc. (the "Foundation") beginning September 1, 2009, due in monthly installments of \$5,000, plus fixed rate interest at 9%, through July 2039. The note is secured by a mortgage deed on the Heritage Suites' building and real property.	\$ 1,621,180	\$ 1,681,180
Less: current portion	(60,000)	(60,000)
Note payable, less current portion	\$ 1,561,180	\$ 1,621,180

Annual maturities of the note payable for the years ending June 30 are as follows:

2013	\$ 60,000
2014	60,000
2015	60,000
2016	60,000
2017	60,000
Thereafter	1,321,180
	\$ 1,621,180

Note 5: Fair Value Measurements

In accordance with the "Fair Value Measurements" topic of the FASB ASC, the Corporation uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions.

Financial assets consisted of the following at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash in money market funds	\$ 12,025,559	\$ -	\$ -	\$ 12,025,559
Certificates of deposit	-	3,562,169	-	3,562,169
	\$ 12,025,559	\$ 3,562,169	\$ -	\$ 15,587,728

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 5: Fair Value Measurements (continued)

Financial assets consisted of the following at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash in money market funds	\$ 14,395,045	\$ -	\$ -	\$ 14,395,045
Certificates of deposit	-	3,562,169	-	3,562,169
U.S government securities – Federal Home Loan Bank	-	1,994,600	-	1,994,600
	<u>\$ 14,395,045</u>	<u>\$ 5,556,769</u>	<u>\$ -</u>	<u>\$ 19,951,814</u>

The “Disclosures about Fair Value of Financial Instruments” topic of the FASB ASC requires disclosures of fair value information about financial instruments, whether or not recognized in the statements of financial position for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Corporation’s financial instruments are detailed below. Where quoted prices are not available, fair values are based upon estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other current liabilities have carrying values that approximate fair value due to the short maturity or the financial nature of these instruments.

The carrying amounts of the Series 2008 Bonds, Series 2009 Bonds, and leases receivable are a reasonable estimate of their fair value based upon their variable interest rates and maturity dates.

The carrying amount of the note payable approximates fair value as the fixed interest rate is similar to that which that would be paid currently.

The carrying amount of the Series 2005 Bonds was \$31,545,000 and \$32,205,000 at June 30, 2012 and 2011, respectively. The estimated fair value, based on the trade date nearest to June 30, 2012 and 2011, was \$27,134,190 and \$23,393,917. The difference in the carrying value and the estimated fair value is primarily due to the credit rating of the Series 2005 Bonds being affected by the bond insurance agent’s credit rating.

These fair value disclosures should not be considered a surrogate of the liquidation value of the Corporation, but rather, represent a good faith estimate of the increase or decrease in the value of financial instruments held by the Corporation since purchase, origination, or issuance.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 6: Leases

On March 1, 2005, the Corporation entered into a 31-year lease with the University for the Fenn Tower Building. Annual rent is equal to the net available cash flows from the Fenn Tower project. No rent was paid or due during the years ended June 30, 2012 and 2011. The University has a subordinate position on the assignment of rents and other assets from Fenn Tower.

On July 1, 2008, the Corporation entered into a 40-year lease with the University for the leasehold interest in the land upon which the parking garage was constructed. There is no rent payment due until July 1, 2039, at which time the rent payment will be \$1,000 per year through June 30, 2048.

On July 1, 2008, the Corporation entered into a 30-year lease with the University for the parking garage facility. Under the terms of the lease, the University has been granted sole and exclusive charge of the operations of the parking garage facility during the lease term in exchange for making monthly rental payments in the amount equal to the required debt service payments on the Series 2008 Bonds, plus any other amount due to the Trustee under the Reimbursement Agreement. Upon termination of the lease, the Corporation will transfer title of the parking facility to the University. As such, the Corporation has recorded a long-term lease receivable in the amount of \$14,500,000, which represents the outstanding principal on the 2008 Series Bonds as of June 30, 2012 and 2011. Interest income is recognized based on the interest expense incurred on the Series 2008 Series Bonds.

On July 1, 2011, the Corporation entered into a 30-year lease with the University for the parking garage facility attached to the Euclid Commons residence halls. Under the terms of the lease, the University has been granted sole and exclusive charge of the operations of the parking garage facility during the lease term in exchange for making monthly rental payments in the amount equal to the required debt service payments on the Series 2009B Bonds, plus any other amounts due to the Trustee under the Reimbursement Agreement. Upon termination of the lease, the Corporation will transfer title of the parking facility to the University. As such, the Corporation has recorded a lease receivable in the amount of \$7,070,000, which represents the outstanding principal on the 2009B Series Bonds at the lease inception. Interest income is recognized based on the interest expense incurred on the Series 2009B Series Bonds.

Note 7: Subleases

The Corporation subleases conference facilities within Fenn Tower and Euclid Commons to the University totaling approximately 30,000 square feet. Monthly payments related to Fenn Tower are \$39,158 through July 2036, and to Euclid Commons are \$23,715 through August 2042. The Corporation also subleases facility space at Heritage Suites to a third-party. Monthly payments are \$8,333 through September 2014.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2012 and 2011

Note 7: Subleases (continued)

The Corporation has entered into a 39-year lease with the Greater Cleveland Regional Transit Authority for a leasehold interest in land. Under the terms of the lease, the Corporation received a one-time rental payment of \$1,464,000. The Corporation is recognizing rental income over the 39-year life of the lease or \$37,538 per year.

Future minimum payments to be received for non-cancelable subleases are as follows for the years ending June 30:

2013	\$	854,480
2014		854,480
2015		771,146
2016		754,480
2017		754,480
Thereafter		<u>16,105,397</u>
	\$	<u>20,094,463</u>

Note 8: Related Party Transactions

Cash held by the University totaled \$397,056 and \$119,444 at June 30, 2012 and 2011, respectively, and represents amounts collected on behalf of the Corporation that has not been remitted to the Corporation.

Included in other receivables at June 30, 2012 and 2011, was \$185,000 and \$76,310, respectively, for rental fees due from the University.

At June 30, 2012 and 2011, included in accounts payable for utilities expenses due to the University was \$163,579 and \$354,426, respectively.

The University paid the Corporation \$1,240,268 and \$932,414 for rental and maintenance fees related to space occupied by the University during each of the years ended June 30, 2012 and 2011, respectively.

The Corporation incurred interest expense of \$148,607 and \$154,004 to the Foundation during the years ended June 30, 2012 and 2011, respectively.

Note 9: Functional Expenses

The following is a detail of expenses by functional category for the years ended June 30:

		<u>2012</u>	<u>2011</u>
Program services	\$	8,646,521	\$ 7,446,005
Management and general		<u>292,310</u>	<u>260,967</u>
	\$	<u>8,938,831</u>	\$ <u>7,706,972</u>

**Report 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***

Board of Directors
Euclid Avenue Development Corporation

We have audited the financial statements of Euclid Avenue Development Corporation (the “Corporation”) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. 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.

Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation’s financial statements are free of 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*.

Board of Directors
Euclid Avenue Development Corporation

We noted certain matters that we reported to management of Euclid Avenue Development Corporation in a separate letter dated September 27, 2012.

This report is intended solely for the information and use of management, the Board of Directors, and the Ohio Auditor of State's office and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 27, 2012

Euclid Avenue Development Corporation

Statement of Financial Position - Detailed Operating Segments

June 30, 2012

Assets

	Fenn Tower	Parking Operations	Heritage Suites	Euclid Commons	Total
Current assets:					
Cash and cash equivalents	\$ 232,726	\$ 1,149,995	\$ 61,048	\$ 264,174	\$ 1,707,943
Cash held by the University	-	-	106,848	290,208	397,056
Total cash and cash equivalents	232,726	1,149,995	167,896	554,382	2,104,999
Student accounts receivable, net	12,274	-	7,993	34,624	54,891
Other receivables	216,636	2,312	2,460	-	221,408
Current portion of leases receivable	-	205,000	-	-	205,000
Prepaid expenses	6,719	1,950	1,580	11,678	21,927
Total current assets	468,355	1,359,257	179,929	600,684	2,608,225
Property and equipment:					
Land	-	-	1,146,460	-	1,146,460
Building	27,792,453	-	488,300	42,167,726	70,448,479
Building improvements	101,023	-	66,476	1,589	169,088
Furniture, fixtures, and equipment	1,267,956	-	69,791	1,621,248	2,958,995
	29,161,432	-	1,771,027	43,790,563	74,723,022
Less: accumulated depreciation	(5,234,016)	-	(62,271)	(1,771,960)	(7,068,247)
Property and equipment, net	23,927,416	-	1,708,756	42,018,603	67,654,775
Other assets:					
Bond proceeds/investments	4,769,639	673,349	-	10,144,740	15,587,728
Leases receivable	-	21,365,000	-	-	21,365,000
Deferred bond issuance costs, net of accumulated amortization	1,598,476	437,780	-	922,678	2,958,934
Total other assets	6,368,115	22,476,129	-	11,067,418	39,911,662
Total assets	\$ 30,763,886	\$ 23,835,386	\$ 1,888,685	\$ 53,686,705	\$ 110,174,662

Euclid Avenue Development Corporation

Statement of Financial Position - Detailed Operating Segments (continued)

June 30, 2012

Liabilities and Net Assets (Deficit)

	Fenn Tower	Parking Operations	Heritage Suites	Euclid Commons	Total
Current liabilities:					
Current portion of bonds payable	\$ 685,000	\$ 105,000	\$ -	\$ -	\$ 790,000
Current portion of note payable	-	-	60,000	-	60,000
Accounts payable	252,507	200	60,607	170,850	484,164
Accrued interest	616,167	2,112	6,079	430,667	1,055,025
Accrued other	13,471	-	4,214	10,828	28,513
Deferred revenue	-	37,538	71,261	46,908	155,707
Security deposits	70,055	-	21,340	91,270	182,665
Total current liabilities	1,637,200	144,850	223,501	750,523	2,756,074
Noncurrent liabilities:					
Deferred revenue	-	1,313,847	-	-	1,313,847
Bonds payable, less current portion	30,860,000	21,365,000	-	51,935,000	104,160,000
Note payable, less current portion	-	-	1,561,180	-	1,561,180
Total noncurrent liabilities	30,860,000	22,678,847	1,561,180	51,935,000	107,035,027
Total liabilities	32,497,200	22,823,697	1,784,681	52,685,523	109,791,101
Net assets (deficit):					
Unrestricted	(1,733,314)	1,011,689	104,004	1,001,182	383,561
Total liabilities and net assets (deficit)	\$ 30,763,886	\$ 23,835,386	\$ 1,888,685	\$ 53,686,705	\$ 110,174,662

Euclid Avenue Development Corporation

Statement of Activities - Detailed Operating Segments

For the year ended June 30, 2012

	Fenn Tower	Parking Operations	Heritage Suites	Euclid Commons	Total
Revenues and gains:					
Rental income:					
Students	\$ 2,530,512	\$ -	\$ 839,320	\$ 4,344,305	\$ 7,714,137
University	654,896	-	-	274,663	929,559
Other	-	61,525	100,000	-	161,525
Maintenance fee - University	199,551	-	-	111,158	310,709
Investment income, net	6,745	-	46	98,507	105,298
Gain on sale of assets	-	1,492,083	-	-	1,492,083
Other	132,030	-	25,350	188,443	345,823
Total revenues and gains	3,523,734	1,553,608	964,716	5,017,076	11,059,134
Expenses and losses:					
Interest	1,480,862	21,587	148,607	1,402,449	3,053,505
Depreciation and amortization	952,883	17,072	29,927	1,260,807	2,260,689
Utilities	388,388	-	284,145	494,179	1,166,712
Contracted personnel	475,163	-	235,335	622,710	1,333,208
Management fees	105,072	-	39,743	172,478	317,293
Maintenance	154,298	-	98,510	161,715	414,523
General and administrative	57,106	2,930	14,693	93,272	168,001
Other operating	28,115	39,035	3,262	25,644	96,056
Marketing	14,368	-	9,054	27,583	51,005
Accounting	9,907	-	4,200	8,400	22,507
Reserve allowance	30,618	-	7,000	13,179	50,797
Insurance	-	-	18	4,517	4,535
Total expenses and losses	3,696,780	80,624	874,494	4,286,933	8,938,831
Change in net assets (deficit)	(173,046)	1,472,984	90,222	730,143	2,120,303
Net assets (deficit) - beginning of year	(1,560,268)	113,241	13,782	(303,497)	(1,736,742)
Transfer of parking garage net assets	-	(574,536)		574,536	-
Net assets (deficit) - end of year	\$ (1,733,314)	\$ 1,011,689	\$ 104,004	\$ 1,001,182	\$ 383,561

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Dave Yost • Auditor of State

EUCLID AVENUE HOUSING 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
JANUARY 22, 2013**