

Euclid Avenue Housing Corporation

**Financial Statements
June 30, 2008 and 2007**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Euclid Avenue Housing Corporation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Housing Corporation is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 20, 2008

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Independent Auditors' Report

Board of Directors
Euclid Avenue Housing Corporation
Cleveland, Ohio

We have audited the accompanying statement of financial position of the Euclid Avenue Housing Corporation (the "Corporation") as of June 30, 2008, and the related statements of activities and cash flows for the year 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 audit. The financial statements as of June 30, 2007, were audited by other auditors whose report dated October 11, 2007, expressed an unqualified opinion on those financial statements.

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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2008, and the changes in its net assets and cash flows for the year 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 23, 2008, on our consideration of Euclid Avenue Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of the audit.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 23, 2008

Euclid Avenue Housing Corporation

Statements of Financial Position

June 30, 2008 and 2007

	<u>Assets</u>	
	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,056,315	\$ 581,003
Cash held by the University	<u>172,281</u>	<u>104,085</u>
Total cash	1,228,596	685,088
Bond proceeds/investments	3,700,835	4,283,505
Student accounts receivable, net of allowance for uncollectible receivables of \$4,000 in 2008 and 2007	35,744	16,002
Other receivable	-	10,385
Accrued interest receivable	12,541	17,500
Prepaid expenses	<u>5,920</u>	<u>3,000</u>
Total current assets	4,983,636	5,015,480
Other assets:		
Deferred bond issuance costs, net of accumulated amortization of \$220,998 in 2008 and \$154,626 in 2007	1,863,968	1,930,340
Property:		
Building	27,792,453	27,792,453
Building improvements	1,300	-
Furniture, fixtures, and equipment	<u>1,196,797</u>	<u>1,192,468</u>
	28,990,550	28,984,921
Less: accumulated depreciation	<u>(1,730,862)</u>	<u>(863,435)</u>
Total other assets	<u>27,259,688</u>	<u>28,121,486</u>
	29,123,656	30,051,826
Total assets	\$ <u>34,107,292</u>	\$ <u>35,067,306</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Housing Corporation

Statements of Financial Position

June 30, 2008 and 2007

Liabilities and Net Assets (Deficit)

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Current portion of bonds payable	\$ 515,000	\$ 455,000
Accounts payable	376,532	242,546
Accrued interest	651,761	657,448
Accrued payroll	12,011	9,610
Deferred revenue	34,501	25,437
Security deposits	<u>56,700</u>	<u>64,800</u>
Total current liabilities	1,646,505	1,454,841
Noncurrent liabilities:		
Bonds payable, less current portion	<u>33,415,000</u>	<u>33,930,000</u>
Total liabilities	35,061,505	35,384,841
Net assets (deficit):		
Unrestricted	<u>(954,213)</u>	<u>(317,535)</u>
Total liabilities and net assets	\$ <u>34,107,292</u>	\$ <u>35,067,306</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Housing Corporation

Statements of Activities

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Rental income:		
Students	\$ 2,232,310	\$ 1,964,606
University	469,896	430,738
Maintenance fee – University	154,305	141,446
Interest income	146,289	263,409
Other	<u>147,654</u>	<u>57,315</u>
Total revenues	3,150,454	2,857,514
Expenses:		
Interest	1,565,363	1,510,009
Depreciation and amortization	933,800	929,808
Utilities	326,147	274,141
Payroll	391,260	254,695
Management fees	103,686	78,925
Maintenance	133,191	61,611
General and administrative	82,114	41,126
Other operating	26,523	10,808
Marketing	13,303	9,248
Accounting	7,500	-
Reserve allowance	500	4,000
Insurance	-	678
Transfer to University	<u>203,745</u>	<u>-</u>
Total expenses	<u>3,787,132</u>	<u>3,175,049</u>
Change in net assets	(636,678)	(317,535)
Net assets – beginning of year	<u>(317,535)</u>	<u>-</u>
Net assets – end of year	\$ <u>(954,213)</u>	\$ <u>(317,535)</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Housing Corporation

Statements of Cash Flows

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (636,678)	\$ (317,535)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	867,427	929,808
Changes in operating assets and liabilities:		
Increase in student accounts receivable	(19,742)	(16,002)
Decrease (increase) in rent receivable	10,385	(10,385)
Decrease in accrued interest receivable	4,959	25,154
Increase in prepaid expenses	(2,920)	(3,000)
Decrease in other assets	66,372	-
Increase (decrease) in accounts payable	133,986	(1,074,408)
Decrease in accrued interest	(5,687)	-
Increase in accrued payroll	2,401	9,610
(Decrease) increase in security deposits	(8,100)	64,800
Increase in deferred revenue	<u>9,064</u>	<u>25,437</u>
Net cash provided by (used in) operating activities	421,467	(366,521)
Cash flows from investing activities:		
Purchases of property	(5,629)	(5,471,126)
Purchases of bond proceeds/investments	(146,289)	(263,409)
Proceeds from sales of bond proceeds/investments	<u>728,959</u>	<u>6,786,144</u>
Net cash provided by investing activities	<u>577,041</u>	<u>1,051,609</u>
Cash flow from financing activities:		
Payment of bonds payable	<u>(455,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(455,000)</u>	<u>-</u>
Change in cash and cash equivalents	543,508	685,088
Cash and cash equivalents – beginning of year	<u>685,088</u>	<u>-</u>
Cash and cash equivalents – end of year	\$ <u><u>1,228,596</u></u>	\$ <u><u>685,088</u></u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Housing Corporation

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Summary of Significant Accounting Policies

Purpose and Accounting Method

The Euclid Avenue Housing Corporation (the "Corporation") was organized primarily to further the educational mission of Cleveland State University (the "University") by developing and owning housing for the students, faculty, and staff of the University.

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.

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

Reclassification

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.

Cash and Cash Equivalents

For purposes of the statement 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, 2008 and 2007, the Organization's operational cash bank balances exceeded the federally insured limits.

Student Accounts Receivables

Student accounts receivable are uncollateralized obligations due from the University's students. 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, 2008 and 2007, the Corporation has a \$4,000 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.

Euclid Avenue Housing Corporation

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Summary of Significant Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs are capitalized and amortized over the life of the bonds using the straight-line method. Amortization expense totaled \$66,373 for the years ended June 30, 2008 and 2007.

Property

Property 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 \$867,427 and \$863,435 for the years ended June 30, 2008 and 2007, respectively.

Security Deposits

Security deposits represent Fenn Tower housing deposits made by residents and is shown as a liability in the accompanying statements of financial position.

Deferred Revenue

Deferred revenue represents the unearned portion of revenue for the summer session and is shown as a liability in the accompanying statements of financial position

Management Fees

As part of the Management Agreement with ACC, the Corporation began paying ACC a monthly management fee in August 2006.

Federal 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.

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.

Euclid Avenue Housing Corporation

Notes to Financial Statements

June 30, 2008 and 2007

Note 1: Summary of Significant Accounting Policies (continued)

Supplemental Cash Flow Information

Cash paid for interest totaled \$1,571,050 and \$1,577,875 for the years ended June 30, 2008 and 2007, respectively.

Note 2: Bond Proceeds/Investments

Investments are carried at fair value as determined by the major securities market. At June 30, 2008 and 2007, all investments were held in either U.S. government obligations or cash equivalents, as follows:

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$ 56,331	\$ -
U.S. government securities	<u>3,644,504</u>	<u>4,283,505</u>
	<u>\$ 3,700,835</u>	<u>\$ 4,283,505</u>

The bond proceeds are maintained in separate accounts as defined by the bond indenture. The remaining bond proceeds will be utilized for the Fenn Tower project.

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 vary from 3.0% to 4.5%. Maturities of the bonds are as follows:

Year Ending June 30,	
2009	\$ 515,000
2010	575,000
2011	635,000
2012	660,000
2013	685,000
Thereafter	<u>30,860,000</u>
	<u>\$ 33,930,000</u>

As of June 30, 2008 and 2007, the Corporation was in compliance the required loan covenants.

Euclid Avenue Housing Corporation

Notes to Financial Statements

June 30, 2008 and 2007

Note 4: Lease

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, 2008 and 2007. The University has a subordinate position on the assignment of rents and other assets from Fenn Tower.

Note 5: Sub-Lease

On March 1, 2005, the Corporation subleased conference facilities totaling approximately 13,000 square feet to the University. Monthly payments are \$39,158 through July 2036. Payments began when the Fenn Tower Building was completed in August 2006. Future minimum payments are as follows:

Year Ending June 30,	
2009	\$ 469,900
2010	469,900
2011	469,900
2012	469,900
2013	469,900
Thereafter	<u>10,846,858</u>
	\$ <u>13,196,358</u>

Note 6: Related Party Transactions

Cash held by the University totaled \$172,281 and \$104,085 at June 30, 2008 and 2007, respectively, and represents amounts collected on behalf of the Corporation that has not been remitted to the corporation.

At June 30, 2008 and 2007, there was a payable for utilities expenses to the University for \$283,905 and \$205,700, respectively.

The University paid the Corporation \$624,201 and \$572,184 for rental and maintenance fees related to space occupied by the University.

During the year ended June 30, 2008, the Corporation transferred \$203,745 of construction related funds to the University for the completion of certain renovations to Fenn Tower.

Euclid Avenue Housing Corporation

Notes to Financial Statements

June 30, 2008 and 2007

Note 7: Subsequent Event

On July 25, 2008, the Corporation issued \$14,500,000 of Cleveland-Cuyahoga County Port Authority Bonds ("Series 2008 Bonds"). The proceeds will be used to finance the construction of a parking garage. Upon completion, the parking garage will be leased to the University. The Series 2008 Bonds are serial bonds maturing between 2010 and 2039. Interest rates are variable and are set weekly.

**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***

To the Board of Directors of
Euclid Avenue Housing Corporation

We have audited the financial statements of Euclid Avenue Housing Corporation as of and for the year ended June 30, 2008, and have issued our report thereon, dated September 23, 2008. 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

In planning and performing our audit, we considered Euclid Avenue Housing 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 Euclid Avenue Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Euclid Avenue Housing Corporation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Euclid Avenue Housing Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Euclid Avenue Housing Corporation's financial statements that is more than inconsequential will not be prevented or detected by Euclid Avenue Housing Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Euclid Avenue Housing Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

To the Board of Directors of
Euclid Avenue Housing Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Euclid Avenue Housing 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*.

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

Cimini + Panichi, Inc.

Cleveland, Ohio
September 23, 2008



Mary Taylor, CPA
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
JULY 14, 2009**