

# **Euclid Avenue Housing Corporation**

**Financial Statements  
June 30, 2010 and 2009**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Euclid Avenue Housing Corporation  
2121 Euclid Avenue  
Rhodes Tower Room 1204  
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, 2009 through June 30, 2010. 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 17, 2010

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# Euclid Avenue Housing Corporation

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## Independent Auditors' Report

Board of Directors  
Euclid Avenue Housing Corporation  
Cleveland, Ohio

We have audited the accompanying statements of financial position of the Euclid Avenue Housing Corporation (the "Corporation") as of June 30, 2010 and 2009, 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 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 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, 2010 and 2009, and the changes in its net assets and 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 October 4, 2010, 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.

Board of Directors  
Euclid Avenue Housing Corporation

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules on pages 19 through 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Corporation's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, are fairly stated in all material respects, when considered in relation to the basic financial statements taken as a whole.

*Cimini + Panichi, Lc.*

Cleveland, Ohio  
October 4, 2010

# Euclid Avenue Housing Corporation

## Statements of Financial Position

June 30, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 1,856,782	\$ 539,621
Cash held by the University	<u>49,695</u>	<u>222,727</u>
Total cash	1,906,477	762,348
Student accounts receivable, net	95,330	42,046
Other receivables	96,028	17,214
Accrued interest receivable	-	24,392
Prepaid expenses	<u>13,847</u>	<u>6,105</u>
Total current assets	2,111,682	852,105
Property and equipment:		
Land	1,146,460	-
Building	28,280,753	27,792,453
Building improvements	27,446	12,398
Furniture, fixtures, and equipment	1,230,908	1,206,740
Construction in progress	<u>26,313,263</u>	<u>11,484,505</u>
	56,998,830	40,496,096
Less: accumulated depreciation	<u>(3,482,140)</u>	<u>(2,598,719)</u>
Property and equipment, net	53,516,690	37,897,377
Other assets:		
Bond proceeds/investments	39,745,205	7,956,579
Note and other receivables	14,500,000	1,640,808
Deferred bond issuance costs, net of accumulated amortization of \$364,838 and \$287,371 at June 30, 2010 and 2009, respectively	3,206,745	2,130,436
Other assets	<u>-</u>	<u>720,000</u>
Total other assets	<u>57,451,950</u>	<u>12,447,823</u>
Total assets	\$ <u>113,080,322</u>	\$ <u>51,197,305</u>

The accompanying notes are an integral part of these financial statements



# Euclid Avenue Housing Corporation

## Statements of Financial Position (continued)

June 30, 2010 and 2009

### Liabilities and Net Assets (Deficit)

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current portion of bonds payable	\$ 735,000	\$ 965,000
Current portion of notes payable	60,000	50,000
Accounts payable	3,962,015	2,297,621
Advance from University	-	300,000
Accrued interest	642,930	644,786
Accrued payroll	26,517	16,347
Deferred revenue	79,510	38,681
Security deposits	<u>55,680</u>	<u>72,355</u>
Total current liabilities	5,561,652	4,384,790
Noncurrent liabilities:		
Deferred revenue	1,388,924	-
Bonds payable, less current portion	105,610,000	46,950,000
Notes payable, less current portion	<u>1,681,180</u>	<u>2,461,180</u>
Total noncurrent liabilities	<u>108,680,104</u>	<u>49,411,180</u>
Total liabilities	114,241,756	53,795,970
Net assets (deficit):		
Unrestricted	<u>(1,161,434)</u>	<u>(2,598,665)</u>
Total liabilities and net assets (deficit)	\$ <u>113,080,322</u>	\$ <u>51,197,305</u>

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Housing Corporation

## Statements of Activities

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues and gains:		
Rental income:		
Students	\$ 3,180,061	\$ 2,454,777
University	469,896	469,896
Other	133,094	-
Maintenance fee – University	154,305	154,305
Investment income, net	71,085	51,458
Gain on sale of assets	1,552,038	-
Other	<u>145,664</u>	<u>143,353</u>
Total revenues	5,706,143	3,273,789
Expenses:		
Interest	1,706,509	1,548,882
Depreciation and amortization	960,888	934,230
Utilities	432,644	388,527
Payroll	611,917	487,102
Management fees	132,066	113,703
Maintenance	221,797	143,313
General and administrative	117,471	101,359
Other operating	32,840	14,759
Marketing	15,450	16,588
Accounting	26,708	11,255
Reserve allowance	8,417	7,947
Insurance	2,205	576
Temporary parking	-	<u>1,150,000</u>
Total expenses	<u>4,268,912</u>	<u>4,918,241</u>
Change in net assets	1,437,231	(1,644,452)
Net assets (deficit) – beginning of year	<u>(2,598,665)</u>	<u>(954,213)</u>
Net assets (deficit) – end of year	\$ <u>(1,161,434)</u>	\$ <u>(2,598,665)</u>

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Housing Corporation

## Statements of Cash Flows

For the years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 1,437,231	\$ (1,644,452)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	960,888	934,230
Gain on sale of assets	(1,552,038)	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Student accounts receivable	(53,284)	(6,302)
Accrued interest and other receivables	(54,422)	(29,065)
Prepaid expenses	(7,742)	(185)
Increase (decrease) in liabilities:		
Accounts payable	103,832	105,247
Accrued interest	(1,856)	(6,975)
Accrued payroll	10,170	4,336
Deferred revenue	1,429,753	4,180
Security deposits	<u>(16,675)</u>	<u>15,655</u>
Net cash provided by (used in) operating activities	2,255,857	(623,331)
Cash flows from investing activities:		
Purchases of property and equipment	(26,249,326)	(9,689,704)
Proceeds received through purchase of note receivable	-	150,372
Purchases of investments	(64,873,886)	(21,958,048)
Proceeds from sales of investments	<u>33,085,260</u>	<u>17,702,304</u>
Net cash used by investing activities	<u>(58,037,952)</u>	<u>(13,795,076)</u>
Cash flow from financing activities:		
Proceeds from issuance of bonds payable	58,562,462	14,391,250
Payment of bond issuance costs	(711,228)	(224,091)
Repayment of bonds payable	(575,000)	(515,000)
Repayment of notes payable	(50,000)	-
Advance from University	<u>(300,000)</u>	<u>300,000</u>
Net cash provided by financing activities	<u>56,926,224</u>	<u>13,952,159</u>
Change in cash and cash equivalents	1,144,129	(466,248)
Cash and cash equivalents – beginning of year	<u>762,348</u>	<u>1,228,596</u>
Cash and cash equivalents – end of year	\$ <u><u>1,906,477</u></u>	\$ <u><u>762,348</u></u>

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Housing Corporation

## Statements of Cash Flows (continued)

For the years ended June 30, 2010 and 2009

### Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 1,555,857	\$ 1,571,050
Non-cash financing and investing activities:		
Other asset purchased by incurrence of a note payable	\$ -	\$ 720,000
Other asset and note payable assigned to the University	(720,000)	-
Increase in construction in progress purchased by incurrence of accounts payable	1,560,562	1,815,842
Bond issuance costs withheld from bond proceeds	442,538	108,750
Acquisition of a note receivable financed by incurrence of a note payable	-	1,791,180
Settlement of a note receivable by receiving title of land and building	1,640,808	-
Recognition of an other receivable as part of the sale of assets	14,500,000	-

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 1: Summary of Significant Accounting Policies

#### Organization

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 and parking facilities 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.

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 with the Apostolos Group 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 once construction is completed. 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 is expected to be completed in September 2010 and will house approximately 600 residents and will have a 292-car attached parking garage.

On September 1, 2009, the Corporation became owner of the YMCA of Greater Cleveland building and an accompanying parking facility (Note 4). 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 approximately 148 residents.

#### Basis of Presentation

On September 30, 2009, the Corporation adopted authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) which establishes the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America. The Corporation has modified its disclosures in this report to comply with the requirements. Accordingly, references to authoritative accounting principles after the effective date will reference the ASC and not the previous accounting guidance. The adoption of the guidance did not have a material effect on the Corporation’s financial position, changes in net assets, or cash flows.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 1: Summary of Significant Accounting Policies (continued)

#### Basis of Presentation (continued)

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

#### 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.

#### Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 4, 2010, the date the financial statements were made widely available.

#### 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, 2010 and 2009, the Corporation'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, 2010 and 2009, the Corporation has recorded \$15,000 and \$11,000, 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 \$77,467 and \$66,373 for the years ended June 30, 2010 and 2009, respectively.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 1: Summary of Significant Accounting Policies (continued)

#### 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 \$883,421 and \$867,857 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, \$414,991 and \$211,475 of interest income, net of \$14,979 and \$184,632 of interest expense, respectively, was capitalized to reduce the cost basis of construction in progress.

#### Security Deposits

Security deposits represent 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 9) and housing for the summer session. Both are presented as a liability in the accompanying statements of financial position.

#### Management Fees

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

#### 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.

During the year ended June 30, 2010, the Corporation adopted the "Accounting for Uncertainty in Income Taxes" topic of the FASB ASC. 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, 2010, the Corporation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

**June 30, 2010 and 2009**

**Note 2: Bond Proceeds/Investments**

Investments are carried at fair value. At June 30, 2010 and 2009, the Corporation had the following investments:

	2010	2009
Cash equivalents	\$ 261,476	\$ -
Money market funds	24,383,729	2,919,559
Certificates of deposit	15,000,000	-
Corporate bonds	-	3,055,000
U.S. government securities	100,000	1,982,020
	\$ 39,745,205	\$ 7,956,579

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 Garage, and Euclid Commons projects.

**Note 3: 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, 2010:

	Level 1	Level 2	Level 3	Total
Cash in money market funds	\$ 24,645,205	\$ -	\$ -	\$ 24,645,205
Certificates of deposit	-	15,000,000	-	15,000,000
U.S. government securities	-	100,000	-	100,000
	\$ 24,645,205	\$ 15,100,000	\$ -	\$ 39,745,205

Financial assets consisted of the following at June 30, 2009:

	Level 1	Level 2	Level 3	Total
Cash in money market funds	\$ 2,919,559	\$ -	\$ -	\$ 2,919,559
Corporate bonds	-	3,055,000	-	3,055,000
U.S. government securities	-	1,982,020	-	1,982,020
	\$ 2,919,559	\$ 5,037,020	\$ -	\$ 7,956,579



# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 4: Note Receivable

On May 22, 2009, the Corporation purchased a mortgage note receivable from the U.S. Department of Housing and Urban Development (“HUD”). The note receivable was related to a HUD funded property which is adjacent to the University. The note receivable originally dated August 1, 1998, in the amount \$5,281,900, was due in 480 monthly payments of \$36,526, including fixed rate interest at 8%, and was secured by the building and real property. The outstanding balance of the note receivable at the time of purchase was \$5,005,102. The Corporation purchased the note receivable for \$1,791,180, which was estimated by management as the fair market value of the note receivable. Subsequent to the purchase, the Corporation received cash proceeds of \$150,372 from HUD which was recorded as reduction of the purchase price of the note receivable. The note receivable purchase was financed by a note payable from The Cleveland State University Foundation, Inc. (the “Foundation”) (Note 6). At June 30, 2009, the note receivable was classified as a non-current asset on the accompanying statements of financial position. On September 1, 2009, the Corporation exchanged the note receivable for title to the real property and building.

### Note 5: 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 4.5%.

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, 2010 and 2009, the variable rate was 0.1% and 0.3%, respectively. 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 June 25, 2011.

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 are being used to finance the construction of Euclid Commons, which includes an attached parking garage. The Series 2009 Bonds are demand bonds maturing between 2010 and 2039. Interest rates are determined by the remarketing agent based on a weekly index. At June 30, 2010, the variable rate was 0.1%. The bonds are secured by the assignment of rents due from the University.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 5: Bonds Payable (continued)

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, 2010, the fair market value of the interest rate cap contract represents an asset of \$9,957, 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 are as follows

Year Ending June 30,	
2011	\$ 735,000
2012	1,155,000
2013	1,490,000
2014	1,630,000
2015	1,790,000
Thereafter	<u>99,545,000</u>
	\$ <u>106,345,000</u>

The Series 2005 Bonds are subject to a fixed charges coverage ratio.

### Note 6: Notes Payable

	<u>2010</u>	<u>2009</u>
Note payable dated June 16, 2009, due to 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 mortgage deed on a building and real property (Note 4).	\$ 1,741,180	\$ 1,791,180

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 6: Notes Payable (continued)

Note payable dated December 26, 2008, due to a bank. The note payable was refinanced on July 7, 2009. The refinancing extended the maturity date from March 26, 2009, to June 30, 2021. Payments are due in monthly installments and interest was charged at the one month LIBOR rate plus 2.65%. The loan is secured by a leasehold mortgage and the assignment of rents, leases, and proceeds. On July 7, 2009, the loan was assigned to the University.

	-	<u>720,000</u>
	1,741,180	2,511,180
Less current portion	<u>(60,000)</u>	<u>(50,000)</u>
Long-term debt, excluding current maturities	\$ <u>1,681,180</u>	\$ <u>2,461,180</u>

Annual maturities of notes payable are as follows:

2011	\$ 60,000
2012	60,000
2013	60,000
2014	60,000
2015	60,000
Thereafter	<u>1,441,180</u>
	\$ <u>1,741,180</u>

### Note 7: Wright Center

On December 26, 2008, the Corporation entered into a series of agreements to acquire the option to purchase a parcel of land. Under the terms of the agreements, the Corporation entered into a long-term ground lease with the land owner. The ground lease required an upfront payment of \$720,000, which provided the consideration necessary to exercise the option at December 31, 2009. The \$720,000 purchase option is presented as other assets on the accompanying statements of financial position. The acquisition was financed through a note payable to a bank (Note 6). On July 7, 2009, the Corporation assigned the loan payable and purchase option to the University.

### Note 8: 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, 2010 and 2009. The University has a subordinate position on the assignment of rents and other assets from Fenn Tower.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 8: Leases (continued)

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 University. As such, the Corporation has recorded a long-term other receivable in the amount of \$14,500,000, which represents the outstanding principal on the 2008 Series Bonds as of June 30, 2010. Interest income is recognized based on the interest expense incurred on the Series 2008 Series Bonds. The recognition of the long-term other receivable resulted in a \$1,552,038 gain on the disposal of the parking garage.

### Note 9: Subleases

The Corporation subleased conference facilities within Fenn Tower totaling approximately 13,000 square feet to the University. Monthly payments are \$39,158 through July 2036. During the year ended June 30, 2010, the Corporation subleased facility space at Heritage Suites to a third-party. Monthly payments are \$8,333 through September 2014. Future minimum payments for non cancelable subleases are as follows:

Year Ending June 30,	
2011	\$ 569,900
2012	569,900
2013	569,900
2014	569,900
2015	486,566
Thereafter	<u>9,906,974</u>
	\$ <u>12,673,140</u>

During the year ended June 30, 2010, the Corporation entered into a 39-year lease with the Greater Cleveland Regional Transit Authority (“GCRTA”) for a leasehold interest in land. Under the terms of the lease, the Corporation received a one 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.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2010 and 2009

### Note 10: Related Party Transactions

Cash held by the University totaled \$49,695 and \$222,727 at June 30, 2010 and 2009, respectively, and represents amounts collected on behalf of the Corporation that has not been remitted to the Corporation.

At June 30, 2010 and 2009, there was a payable for utilities expenses due to the University of \$211,335 and \$370,762, respectively.

The University paid the Corporation \$624,201 for rental and maintenance fees related to space occupied by the University during each of the years ended June 30, 2010 and 2009.

The Corporation incurred interest expense of \$166,048 to the Foundation during the year ended June 30, 2010.

### Note 11: Functional Expenses

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

	<u>2010</u>	<u>2009</u>
Program services	\$ 4,100,866	\$ 4,781,092
Management and general	<u>168,046</u>	<u>137,149</u>
	<u>\$ 4,268,912</u>	<u>4,918,241</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 Housing Corporation

We have audited the financial statements of Euclid Avenue Housing Corporation (the “Corporation”) as of and for the year ended June 30, 2010, and have issued our report thereon, dated October 4, 2010. 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 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.

Board of Directors  
Euclid Avenue Housing Corporation

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*.

We noted certain matters that we reported to management of Euclid Avenue Housing Corporation in a separate letter dated October 4, 2010.

This report is intended solely for the information and use of the 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  
October 4, 2010

## Euclid Avenue Housing Corporation

### Statement of Financial Position - Detailed Operating Segments

**June 30, 2010 (with comparative totals for June 30, 2009)**

	<u>Assets</u>					
	Fenn Tower	Parking Garage	YMCA/ Other	Euclid Commons	2010	2009
Current assets:						
Cash and cash equivalents	\$ 333,621	\$ 1,398,552	\$ 95,356	\$ 29,253	\$ 1,856,782	\$ 539,621
Cash held by the University	49,695	-	-	-	49,695	222,727
Total cash	<u>383,316</u>	<u>1,398,552</u>	<u>95,356</u>	<u>29,253</u>	<u>1,906,477</u>	<u>762,348</u>
Student accounts receivable, net	83,807	-	11,523	-	95,330	42,046
Other receivables	92,138	-	3,890	-	96,028	17,214
Accrued interest receivable	-	-	-	-	-	24,392
Prepaid expenses	11,911	-	1,936	-	13,847	6,105
Total current assets	<u>571,172</u>	<u>1,398,552</u>	<u>112,705</u>	<u>29,253</u>	<u>2,111,682</u>	<u>852,105</u>
Property and equipment:						
Land	-	-	1,146,460	-	1,146,460	-
Building	27,792,453	-	488,300	-	28,280,753	27,792,453
Building improvements	24,347	-	3,099	-	27,446	12,398
Furniture, fixtures, and equipment	1,217,302	-	13,606	-	1,230,908	1,206,740
Construction in progress	-	-	-	26,313,263	26,313,263	11,484,505
	<u>29,034,102</u>	<u>-</u>	<u>1,651,465</u>	<u>26,313,263</u>	<u>56,998,830</u>	<u>40,496,096</u>
Less: accumulated depreciation	<u>(3,470,677)</u>	<u>-</u>	<u>(11,463)</u>	<u>-</u>	<u>(3,482,140)</u>	<u>(2,598,719)</u>
Property and equipment, net	<u>25,563,425</u>	<u>-</u>	<u>1,640,002</u>	<u>26,313,263</u>	<u>53,516,690</u>	<u>37,897,377</u>
Other assets						
Bond proceeds/investments	4,685,265	174,828	-	34,885,112	39,745,205	7,956,579
Note and other receivables	-	14,500,000	-	-	14,500,000	1,640,808
Deferred bond issuance costs, net of accumulated amortization	1,731,222	321,747	-	1,153,776	3,206,745	2,130,436
Other assets	-	-	-	-	-	720,000
Total other assets	<u>6,416,487</u>	<u>14,996,575</u>	<u>-</u>	<u>36,038,888</u>	<u>57,451,950</u>	<u>12,447,823</u>
 Total assets	 <u>\$ 32,551,084</u>	 <u>\$ 16,395,127</u>	 <u>\$ 1,752,707</u>	 <u>\$ 62,381,404</u>	 <u>113,080,322</u>	 <u>\$ 51,197,305</u>



## Euclid Avenue Housing Corporation

### Statement of Financial Position - Detailed Operating Segments

**June 30, 2010 (with comparative totals for June 30, 2009)**

#### Liabilities and Nets Assets (Deficit)

	Fenn Tower	Parking Garage	YMCA/ Other	Euclid Commons	2010	2009
Current liabilities:						
Current portion of bonds payable	\$ 635,000	\$ -	\$ -	\$ 100,000	\$ 735,000	\$ 965,000
Current portion of notes payable	-	-	60,000	-	60,000	50,000
Accounts payable	452,130	85,925	47,556	3,376,404	3,962,015	2,297,621
Advance from University	-	-	-	-	-	300,000
Accrued interest	636,401	-	6,529	-	642,930	644,786
Accrued payroll	20,404	-	6,113	-	26,517	16,347
Deferred revenue	39,045	37,538	2,927	-	79,510	38,681
Security deposits	49,695	-	5,985	-	55,680	72,355
Total current liabilities	<u>1,832,675</u>	<u>123,463</u>	<u>129,110</u>	<u>3,476,404</u>	<u>5,561,652</u>	<u>4,384,790</u>
Noncurrent liabilities:						
Deferred revenue	-	1,388,924	-	-	1,388,924	-
Bonds payable, less current portion	32,205,000	14,500,000	-	58,905,000	105,610,000	46,950,000
Notes Payable, less current portion	-	-	1,681,180	-	1,681,180	2,461,180
Total noncurrent liabilities	<u>32,205,000</u>	<u>15,888,924</u>	<u>1,681,180</u>	<u>58,905,000</u>	<u>108,680,104</u>	<u>49,411,180</u>
Total liabilities	<u>34,037,675</u>	<u>16,012,387</u>	<u>1,810,290</u>	<u>62,381,404</u>	<u>114,241,756</u>	<u>53,795,970</u>
Net assets (deficit):						
Unrestricted	<u>(1,486,591)</u>	<u>382,740</u>	<u>(57,583)</u>	<u>-</u>	<u>(1,161,434)</u>	<u>(2,598,665)</u>
Total liabilities and net assets (deficit)	<u>\$ 32,551,084</u>	<u>\$ 16,395,127</u>	<u>\$ 1,752,707</u>	<u>\$ 62,381,404</u>	<u>113,080,322</u>	<u>\$ 51,197,305</u>

## Euclid Avenue Housing Corporation

### Statement of Activities - Detailed Operating Segments

**For the year ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)**

	Fenn Tower	Parking Garage	YMCA/ Other	Euclid Commons	2010	2009
Revenues and gains:						
Rental income:						
Students	\$ 2,653,198	\$ -	\$ 526,863	\$ -	3,180,061	\$ 2,454,777
University	469,896	-	-	-	469,896	469,896
Other	-	49,760	83,334	-	133,094	-
Maintenance fee - University	154,305	-	-	-	154,305	154,305
Investment income, net	51,378	19,707	-	-	71,085	51,458
Gain on sale of assets	-	1,552,038	-	-	1,552,038	-
Other	135,900	-	9,764	-	145,664	143,353
Total revenues	3,464,677	1,621,505	619,961	-	5,706,143	3,273,789
Expenses:						
Interest	1,529,040	11,421	166,048	-	1,706,509	1,548,882
Depreciation and amortization	938,331	11,094	11,463	-	960,888	934,230
Utilities	225,926	-	206,718	-	432,644	388,527
Payroll	519,354	-	92,563	-	611,917	487,102
Management fees	100,406	-	31,660	-	132,066	113,703
Maintenance	97,065	-	124,732	-	221,797	143,313
General and administrative	25,860	58,497	33,114	-	117,471	101,359
Other operating	20,789	7,753	4,298	-	32,840	14,759
Marketing	14,547	-	903	-	15,450	16,588
Accounting	26,708	-	-	-	26,708	11,255
Reserve allowance	4,577	-	3,840	-	8,417	7,947
Insurance	-	-	2,205	-	2,205	576
Temporary parking	-	-	-	-	-	1,150,000
Total expenses	3,502,603	88,765	677,544	-	4,268,912	4,918,241
Change in net assets	(37,926)	1,532,740	(57,583)	-	1,437,231	(1,644,452)
Net assets (deficit) - beginning of year	(1,448,665)	(1,150,000)	-	-	(2,598,665)	(954,213)
Net assets (deficit) - end of year	\$ (1,486,591)	\$ 382,740	\$ (57,583)	\$ -	(1,161,434)	\$ (2,598,665)



**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  
DECEMBER 21, 2010**