

# **Euclid Avenue Housing Corporation**

**Financial Statements  
June 30, 2011 and 2010**





# Dave Yost • 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, 2010 through June 30, 2011. 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.

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

Dave Yost  
Auditor of State

November 7, 2011

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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, 2011 and 2010, 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, 2011 and 2010, 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 August 31, 2011, 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 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.

*Ciuni + Panichi, Inc.*

Cleveland, Ohio  
August 31, 2011



# Euclid Avenue Housing Corporation

## Statements of Financial Position

June 30, 2011 and 2010

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 2,021,827	\$ 1,856,782
Cash held by the University	<u>119,444</u>	<u>49,695</u>
Total cash and cash equivalents	2,141,271	1,906,477
Student accounts receivable, net	89,027	95,330
Other receivables	118,145	96,028
Prepaid expenses	<u>12,935</u>	<u>13,847</u>
Total current assets	2,361,378	2,111,682
Property and equipment:		
Land	1,146,460	1,146,460
Building	54,671,438	28,280,753
Building improvements	98,836	27,446
Furniture, fixtures, and equipment	2,217,545	1,230,908
Construction in progress	<u>18,071,217</u>	<u>26,313,263</u>
	76,205,496	56,998,830
Less: accumulated depreciation	<u>(5,071,764)</u>	<u>(3,482,140)</u>
Property and equipment, net	71,133,732	53,516,690
Other assets:		
Bond proceeds/investments	19,951,814	39,745,205
Note receivable	14,500,000	14,500,000
Deferred bond issuance costs, net of accumulated amortization of \$498,372 and \$364,838 at June 30, 2011 and 2010, respectively	<u>3,073,211</u>	<u>3,206,745</u>
Total other assets	<u>37,525,025</u>	<u>57,451,950</u>
Total assets	\$ <u>111,020,135</u>	\$ <u>113,080,322</u>

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Housing Corporation

## Statements of Financial Position (continued)

June 30, 2011 and 2010

### Liabilities and Net Assets (Deficit)

	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current portion of bonds payable	\$ 660,000	\$ 735,000
Current portion of note payable	60,000	60,000
Accounts payable	2,694,757	3,962,015
Accrued interest	1,001,229	642,930
Accrued other	50,037	26,517
Deferred revenue	120,679	79,510
Security deposits	<u>147,610</u>	<u>55,680</u>
Total current liabilities	4,734,312	5,561,652
Noncurrent liabilities:		
Deferred revenue	1,351,385	1,388,924
Bonds payable, less current portion	105,050,000	105,610,000
Note payable, less current portion	<u>1,621,180</u>	<u>1,681,180</u>
Total noncurrent liabilities	<u>108,022,565</u>	<u>108,680,104</u>
Total liabilities	112,756,877	114,241,756
Net assets (deficit):		
Unrestricted	<u>(1,736,742)</u>	<u>(1,161,434)</u>
Total liabilities and net assets (deficit)	\$ <u>111,020,135</u>	\$ <u>113,080,322</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues and gains:		
Rental income:		
Students	\$ 5,703,723	\$ 3,180,061
University	697,988	469,896
Other	176,949	133,094
Maintenance fees – University	234,426	154,305
Investment income, net	107,827	71,085
Gain on sale of assets	-	1,552,038
Other	<u>210,751</u>	<u>145,664</u>
Total revenues and gains	7,131,664	5,706,143
Expenses and losses:		
Interest	3,187,371	1,706,509
Depreciation and amortization	1,697,200	960,888
Utilities	633,204	432,644
Contracted personnel	1,092,582	611,917
Management fees	238,096	132,066
Maintenance	347,319	221,797
General and administrative	159,900	117,471
Other operating	248,398	32,840
Marketing	41,006	15,450
Accounting	28,820	26,708
Reserve allowance	31,241	8,417
Insurance	<u>1,835</u>	<u>2,205</u>
Total expenses	<u>7,706,972</u>	<u>4,268,912</u>
Change in net assets (deficit)	(575,308)	1,437,231
Net assets (deficit) – beginning of year	<u>(1,161,434)</u>	<u>(2,598,665)</u>
Net assets (deficit) – end of year	\$ <u><u>(1,736,742)</u></u>	\$ <u><u>(1,161,434)</u></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, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (575,308)	\$ 1,437,231
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	1,697,200	960,888
Gain on sale of assets	-	(1,552,038)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Student accounts receivable	6,303	(53,284)
Accrued interest and other receivables	(22,117)	(54,422)
Prepaid expenses	912	(7,742)
Increase (decrease) in liabilities:		
Accounts payable	117,722	103,832
Accrued interest	358,299	(1,856)
Accrued other	23,520	10,170
Deferred revenue	3,630	1,429,753
Security deposits	91,930	(16,675)
Net cash provided by operating activities	1,702,091	2,255,857
Cash flows from investing activities:		
Purchases of property and equipment	(20,565,688)	(26,249,326)
Purchases of investments	(12,795,920)	(64,873,886)
Proceeds from sales of investments	32,589,311	33,085,260
Net cash used by investing activities	(772,297)	(58,037,952)
Cash flow from financing activities:		
Proceeds from issuance of bonds payable	-	58,562,462
Payment of bond issuance costs	-	(711,238)
Repayment of bonds payable	(635,000)	(575,000)
Repayment of note payable	(60,000)	(50,000)
Advance from University	-	(300,000)
Net cash (used) provided by financing activities	(695,000)	56,926,224
Change in cash and cash equivalents	234,794	1,144,129
Cash and cash equivalents – beginning of year	1,906,477	762,348
Cash and cash equivalents – end of year	\$ 2,141,271	\$ 1,906,477

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, 2011 and 2010

### Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 2,829,072	\$ 1,555,857
Non-cash financing and investing activities:		
Other asset and note payable assigned to the University	\$ -	\$ (720,000)
Amortization of bond issuance costs capitalized into construction in progress	25,958	-
(Decrease) increase in construction in progress purchased by incurrence of accounts payable	(1,384,980)	1,560,562
Bond issuance costs withheld from bond proceeds	-	442,538
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, 2011 and 2010

### Note 1: Summary of Significant Accounting Policies

#### Organization

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 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 is expected to be completed in various phases from September 2010 to September 2011 and at its completion will house approximately 600 residents as well as include a 292-car attached parking 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 Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

### 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 August 31, 2011, 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, 2011 and 2010, 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. 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, 2011 and 2010, the Corporation has recorded \$40,000 and \$15,000, 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 \$107,576 and \$77,467 for the years ended June 30, 2011 and 2010, respectively. Annual amortization expense will be approximately \$112,000 through the years ending June 30, 2042.

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

### 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 \$1,589,624 and \$883,421 for the years ended June 30, 2011 and 2010, 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 years ended June 30, 2011 and 2010, \$317,567 and \$414,991 of interest income, net of \$49,556 and \$14,979 of interest expense, respectively, 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. 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 dates through July 31, 2020 and may be extended upon approval by both parties.

#### Interest Expense

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

#### 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.



# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

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

#### Federal Income Taxes (continued)

The Corporation accounts for income taxes in accordance with the “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, 2011 and 2010, 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.

### Note 2: Bond Proceeds/Investments

Investments are carried at fair value. At June 30, 2011 and 2010, the Corporation had the following investments:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ -	\$ 261,476
Money market funds	14,395,045	24,383,729
Certificates of deposit	3,562,169	15,000,000
U.S. government securities	<u>1,994,600</u>	<u>100,000</u>
	<u>\$ 19,951,814</u>	<u>\$ 39,745,205</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 Garage, and Euclid Commons projects.

### 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.

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, 2011 and 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, 2011 and 2010

### Note 3: Bonds Payable (continued)

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 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, 2011 and 2010, the variable rate was 0.1%. 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, 2011 and 2010, the fair market value of the interest rate cap contract represented an asset of \$331 and \$9,957, 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 are as follows

Year ending June 30,	
2012	\$ 660,000
2013	1,175,000
2014	1,215,000
2015	1,550,000
2016	1,695,000
Thereafter	<u>99,415,000</u>
	\$ <u>105,710,000</u>

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

**June 30, 2011 and 2010**

**Note 4: Note Payable**

	2011	2010
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 a building and real property.	\$ 1,681,180	\$ 1,741,180
Less: current portion	(60,000)	(60,000)
Note payable, less current portion	\$ 1,621,180	\$ 1,681,180

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

2012	\$ 60,000
2013	60,000
2014	60,000
2015	60,000
2016	60,000
Thereafter	1,381,180
	\$ 1,681,180

**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, 2011:

	Level 1	Level 2	Level 3	Total
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
	\$ 14,395,045	\$ 5,556,769	\$ -	\$ 19,951,814

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

### Note 5: Fair Value Measurements (continued)

Financial assets consisted of the following at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash in money market funds	\$ 24,645,205	\$ -	\$ -	\$ 24,645,205
Certificates of deposit	-	15,000,000	-	15,000,000
U.S. government securities – Federal Home Loan Bank	-	100,000	-	100,000
	<u>\$ 24,645,205</u>	<u>\$ 15,100,000</u>	<u>\$ -</u>	<u>\$ 39,745,205</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 note 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 \$32,205,000 at June 30, 2011. The estimated fair value, based on the trade date nearest to June 30, 2011, was \$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 Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

### 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, 2011 and 2010. 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 University. As such, the Corporation has recorded a long-term note receivable in the amount of \$14,500,000, which represents the outstanding principal on the 2008 Series Bonds as of June 30, 2011 and 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 during the year ended June 30, 2010.

### Note 7: Subleases

The Corporation subleases conference facilities within Fenn Tower and Euclid Commons to the University totaling approximately 23,000 square feet to the University. Monthly payments are \$52,956 through July 2036 to July 2040. The Corporation also subleases facility space at Heritage Suites to a third-party. Monthly payments are \$8,333 through September 2014.

During the year ended June 30, 2010, the Corporation 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 for non-cancelable subleases are as follows for the years ending June 30:

2012	\$	735,476
2013		735,476
2014		735,476
2015		652,142
2016		635,476
Thereafter		<u>13,424,700</u>
	\$	<u>16,918,746</u>

# Euclid Avenue Housing Corporation

## Notes to Financial Statements

June 30, 2011 and 2010

### Note 8: Related Party Transactions

Cash held by the University totaled \$119,444 and \$49,695 at June 30, 2011 and 2010, respectively, and represents amounts collected on behalf of the Corporation that has not been remitted to the Corporation.

At June 30, 2011 and 2010, included in accounts payable for utilities expenses due to the University was \$354,426 and \$211,335, respectively.

The University paid the Corporation \$932,414 and \$624,201 for rental and maintenance fees related to space occupied by the University during each of the years ended June 30, 2011 and 2010, respectively. Included in other receivables at June 30, 2011 and 2010, was \$76,310 and \$-0-, respectively, for rental fees due from the University.

The Corporation incurred interest expense of \$154,004 and \$166,048 to the Foundation during the years ended June 30, 2011 and 2010, respectively.

### Note 9: Functional Expenses

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

	<u>2011</u>	<u>2010</u>
Program services	\$ 7,446,005	\$ 4,100,866
Management and general	<u>260,967</u>	<u>168,046</u>
	<u>\$ 7,706,972</u>	<u>4,268,912</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, 2011, and have issued our report thereon dated August 31, 2011. 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 Housing Corporation

We noted certain matters that we reported to management of Euclid Avenue Housing Corporation in a separate letter dated August 31, 2011.

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  
August 31, 2011



## Euclid Avenue Housing Corporation

### Statement of Financial Position - Detailed Operating Segments

June 30, 2011

	<u>Assets</u>				
	<u>Fenn Tower</u>	<u>Parking Garage</u>	<u>Heritage Suites</u>	<u>Euclid Commons</u>	<u>2011</u>
Current assets:					
Cash and cash equivalents	\$ 497,038	\$ 1,301,934	\$ 81,020	\$ 141,835	\$ 2,021,827
Cash held by the University	61,915	-	-	57,529	119,444
Total cash and cash equivalents	<u>558,953</u>	<u>1,301,934</u>	<u>81,020</u>	<u>199,364</u>	<u>2,141,271</u>
Student accounts receivable, net	34,024	-	22,047	32,956	89,027
Other receivables	86,885	1,646	29,614	-	118,145
Prepaid expenses	6,512	-	2,032	4,391	12,935
Total current assets	<u>686,374</u>	<u>1,303,580</u>	<u>134,713</u>	<u>236,711</u>	<u>2,361,378</u>
Property and equipment:					
Land	-	-	1,146,460	-	1,146,460
Building	27,792,453	-	488,300	26,390,685	54,671,438
Building improvements	53,117	-	45,719	-	98,836
Furniture, fixtures, and equipment	1,251,259	-	55,338	910,948	2,217,545
Construction in progress	-	-	-	18,071,217	18,071,217
	<u>29,096,829</u>	<u>-</u>	<u>1,735,817</u>	<u>45,372,850</u>	<u>76,205,496</u>
Less: accumulated depreciation	(4,347,506)	-	(32,344)	(691,914)	(5,071,764)
Property and equipment, net	<u>24,749,323</u>	<u>-</u>	<u>1,703,473</u>	<u>44,680,936</u>	<u>71,133,732</u>
Other assets:					
Bond proceeds/investments	4,581,238	2	-	15,370,574	19,951,814
Note receivable	-	14,500,000	-	-	14,500,000
Deferred bond issuance costs, net of accumulated amortization	1,664,849	310,652	-	1,097,710	3,073,211
Total other assets	<u>6,246,087</u>	<u>14,810,654</u>	<u>-</u>	<u>16,468,284</u>	<u>37,525,025</u>
 Total assets	 <u>\$ 31,681,784</u>	 <u>\$ 16,114,234</u>	 <u>\$ 1,838,186</u>	 <u>\$ 61,385,931</u>	 <u>\$ 111,020,135</u>

## Euclid Avenue Housing Corporation

### Statement of Financial Position - Detailed Operating Segments (continued)

June 30, 2011

#### Liabilities and Net Assets (Deficit)

	Fenn Tower	Parking Garage	Heritage Suites	Euclid Commons	2011
Current liabilities:					
Current portion of bonds payable	\$ 660,000	\$ -	\$ -	\$ -	\$ 660,000
Current portion of note payable	-	-	60,000	-	60,000
Accounts payable	323,715	110,624	65,568	2,194,850	2,694,757
Accrued interest	626,479	1,446	6,304	367,000	1,001,229
Accrued other	24,633	-	7,868	17,536	50,037
Deferred revenue	310	37,538	43,684	39,147	120,679
Security deposits	61,915	-	19,800	65,895	147,610
Total current liabilities	1,697,052	149,608	203,224	2,684,428	4,734,312
Noncurrent liabilities:					
Deferred revenue	-	1,351,385	-	-	1,351,385
Bonds payable, less current portion	31,545,000	14,500,000	-	59,005,000	105,050,000
Note payable, less current portion	-	-	1,621,180	-	1,621,180
Total noncurrent liabilities	31,545,000	15,851,385	1,621,180	59,005,000	108,022,565
Total liabilities	33,242,052	16,000,993	1,824,404	61,689,428	112,756,877
Net assets (deficit):					
Unrestricted	(1,560,268)	113,241	13,782	(303,497)	(1,736,742)
Total liabilities and net assets (deficit)	\$ 31,681,784	\$ 16,114,234	\$ 1,838,186	\$ 61,385,931	\$ 111,020,135

## Euclid Avenue Housing Corporation

### Statement of Activities - Detailed Operating Segments

For the year ended June 30, 2011

	Fenn Tower	Parking Garage	Heritage Suites	Euclid Commons	2011
Revenues and gains:					
Rental income:					
Students	\$ 2,647,307	\$ -	\$ 704,904	\$ 2,351,512	\$ 5,703,723
University	546,206	-	-	151,782	697,988
Other	-	76,949	100,000	-	176,949
Maintenance fee - University	179,249	-	-	55,177	234,426
Investment income, net	16,905	80	46	90,796	107,827
Gain on sale of assets	-	-	-	-	-
Other	109,258	9,450	27,913	64,130	210,751
Total revenues and gains	3,498,925	86,479	832,863	2,713,397	7,131,664
Expenses and losses:					
Interest	1,505,521	36,809	154,004	1,491,037	3,187,371
Depreciation and amortization	943,202	11,095	20,881	722,022	1,697,200
Utilities	218,779	-	252,703	161,722	633,204
Contracted personnel	550,533	-	152,806	389,243	1,092,582
Management fees	101,460	-	38,424	98,212	238,096
Maintenance	146,648	16,210	111,021	73,440	347,319
General and administrative	30,245	82,759	17,162	29,734	159,900
Other operating	20,512	209,105	394	18,387	248,398
Marketing	13,467	-	3,275	24,264	41,006
Accounting	28,820	-	-	-	28,820
Reserve allowance	13,415	-	10,826	7,000	31,241
Insurance	-	-	2	1,833	1,835
Total expenses and losses	3,572,602	355,978	761,498	3,016,894	7,706,972
Change in net assets (deficit)	(73,677)	(269,499)	71,365	(303,497)	(575,308)
Net assets (deficit) - beginning of year	(1,486,591)	382,740	(57,583)	-	(1,161,434)
Net assets (deficit) - end of year	\$ (1,560,268)	\$ 113,241	\$ 13,782	\$ (303,497)	\$ (1,736,742)

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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  
NOVEMBER 17, 2011**