# Euclid Avenue Development Corporation

## Financial Statements
## June 30, 2016 and 2015

# Dave Yost • Auditor of State

Board of Directors
Euclid Avenue Development Corporation
2121 Euclid Avenue, AC 252
Cleveland, Ohio 44115

We have reviewed the *Independent Auditor's Report* of the Euclid Avenue Development Corporation, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

November 30, 2016

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# Euclid Avenue Development Corporation

## Financial Statements

## June 30, 2016 and 2015

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# Independent Auditor's Report

Board of Directors
Euclid Avenue Development Corporation
Cleveland, Ohio

## Report on the Financial Statements

We have audited the accompanying financial statements of Euclid Avenue Development Corporation (a nonprofit organization) (the "Corporation"), a component unit of Cleveland State University, which comprise the statements of financial position as June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

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Board of Directors
Euclid Avenue Development Corporation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Euclid Avenue Development Corporation as of June 30, 2016 and 2015, 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.

***Emphasis of Matter***

As discussed in Note 10 to the financial statements, a misinterpretation of certain lease agreements, resulting in understatement of amounts previously reported as rent expense and payable to Cleveland State University as of June 30, 2015 and 2014, was discovered by management of the Corporation during the current year. Accordingly, amounts reported for rent expense and payable to Cleveland State University have been restated in the 2015 financial statements now presented, and an adjustment has been made to net assets (deficit) as of June 30, 2014, to correct the error. Our opinion is not modified with respect to this matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
October 13, 2016

# Euclid Avenue Development Corporation

## Statements of Financial Position

## June 30, 2016 and 2015

Assets

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ | 1,077,848 | $ | 951,546 |
| Cash held by the University | | 317,173 | | 105,060 |
| Total cash and cash equivalents | | 1,395,021 | | 1,056,606 |
| Student accounts receivable, net | | 18,399 | | 18,790 |
| Other receivables | | 380,934 | | 121,869 |
| Investments | | 13,739,952 | | 18,715,763 |
| Investments restricted for repayment of defeased debt | | - | | 30,093,137 |
| Prepaid expenses | | 10,986 | | 79,739 |
| Total current assets | | 15,545,292 | | 50,085,904 |
| Property and equipment: | | | | |
| Land | | 128,000 | | - |
| Buildings | | 70,632,179 | | 69,960,179 |
| Building improvements | | 880,002 | | 722,463 |
| Furniture, fixtures, and equipment | | 3,139,207 | | 3,090,543 |
| | | 74,779,388 | | 73,773,185 |
| Less: accumulated depreciation | | (15,476,892) | | (13,338,530) |
| Property and equipment, net | | 59,302,496 | | 60,434,655 |
| Other assets: | | | | |
| Restricted investments | | 4,831,875 | | 3,766,436 |
| Leases receivable | | 19,605,000 | | 19,605,000 |
| Deferred bond issuance costs, net of accumulated amortization of $76,923 and $31,280 at June 30, 2016 and 2015, respectively | | 1,066,650 | | 1,112,293 |
| Total other assets | | 25,503,525 | | 24,483,729 |
| Total assets | $ | 100,351,313 | $ | 135,004,288 |

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Development Corporation

## Statements of Financial Position (continued)

## June 30, 2016 and 2015

Liabilities and Net Assets

| | 2016 | 2015 |
|---|---|---|
| Current liabilities: | | |
| Defeased bonds payable | $ - | $ 29,410,000 |
| Current portion of bonds payable | 1,500,000 | 1,455,000 |
| Accounts payable | 274,510 | 273,512 |
| Accrued interest | 1,822,710 | 2,409,354 |
| Accrued other | 52,363 | 47,372 |
| Deferred revenue | 485,884 | 155,330 |
| Rent payable to the University (as restated in 2015) | 2,225,000 | 6,225,000 |
| Security deposits | 188,315 | 147,033 |
| Total current liabilities | 6,548,782 | 40,122,601 |
| Noncurrent liabilities, net of current portion: | | |
| Deferred revenue | 1,163,701 | 1,201,237 |
| Bonds payable, net of accumulated amortization of bond premium of $588,191 and $212,086 at June 30, 2016 and 2015, respectively | 94,449,437 | 96,325,542 |
| Total noncurrent liabilities, net of current portion | 95,613,138 | 97,526,779 |
| Total liabilities | 102,161,920 | 137,649,380 |
| Net assets (deficit): | | |
| Unrestricted | (1,810,607) | (2,645,092) |
| Total net assets (deficit) (as restated in 2015) | (1,810,607) | (2,645,092) |
| Total liabilities and net assets (deficit) | $ 100,351,313 | $ 135,004,288 |

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Development Corporation

## Statements of Activities

## For the years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Revenues and gains: | | |
| Rental income: | | |
| Students | $ 7,830,180 | $ 7,887,134 |
| University | 1,734,735 | 1,379,432 |
| Other | 52,469 | 135,199 |
| Maintenance fees – University | 232,580 | 226,127 |
| Investment (loss) income, net | (148,849) | 89,156 |
| Gain on sale of property and equipment (Heritage Suites) | - | 1,510,609 |
| Other | 812,831 | 1,025,163 |
| Total revenues and gains | 10,513,946 | 12,252,820 |
| Expenses and losses: | | |
| Interest | 4,154,161 | 4,079,373 |
| Depreciation and amortization | 2,184,005 | 4,899,344 |
| Utilities | 768,323 | 945,174 |
| Contracted personnel | 1,292,295 | 1,412,916 |
| Management fees | 293,389 | 324,492 |
| Maintenance | 621,069 | 447,316 |
| General and administrative | 175,011 | 235,746 |
| Other operating | 129,514 | 93,920 |
| Marketing | 27,474 | 37,371 |
| Accounting | 21,740 | 18,894 |
| Reserve allowance | 4,723 | 4,620 |
| Insurance | 7,757 | 8,291 |
| Write-down of leases receivable (Note 6) | - | 745,000 |
| Change in value of interest rate cap | - | 2,290 |
| Rent expense (as restated in 2015) | - | 4,655,611 |
| Total expenses and losses | 9,679,461 | 17,910,358 |
| Change in net assets (deficit) (as restated in 2015) | 834,485 | (5,657,538) |
| Net assets (deficit) – beginning of year (as restated in 2015) | (2,645,092) | 3,012,446 |
| Net assets (deficit) – end of year | $ (1,810,607) | $ (2,645,092) |

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Development Corporation

## Statements of Cash Flows

### For the years ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 834,485 | $ (5,657,538) |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities: | | |
| Depreciation and amortization | 1,807,900 | 4,687,258 |
| Net unrealized loss on investments | 455,849 | 7,736 |
| Gain on sale of property and equipment | - | (1,510,609) |
| Change in value of interest rate cap | - | 2,290 |
| Write-down of leases receivable | - | 745,000 |
| (Increase) decrease in assets: | | |
| Student accounts receivable | 391 | 12,237 |
| Other receivables | (259,065) | (80,916) |
| Leases receivable | - | 510,000 |
| Prepaid expenses | 68,753 | 17,080 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 998 | (263,891) |
| Accrued interest | (586,644) | 1,683,702 |
| Accrued other | 4,991 | 9,703 |
| Deferred revenue | 293,018 | (44,107) |
| Security deposits | 41,282 | (12,405) |
| Rent payable to the University | (4,000,000) | 4,625,000 |
| Net cash (used) provided by operating activities | (1,338,042) | 4,730,540 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,006,203) | (550,717) |
| Proceeds from sale of property and equipment | - | 3,212,527 |
| Purchases and sales of bond proceeds, net | 29,027,698 | - |
| Purchases of restricted investments, net | - | (11,813,117) |
| Purchases of investments | (6,644,269) | (21,897,403) |
| Proceeds from sale of investments | 11,164,231 | 4,003,910 |
| Net cash provided (used) by investing activities | 32,541,457 | (27,044,800) |
| Cash flow from financing activities: | | |
| Repayment of bonds payable | (30,865,000) | (73,245,000) |
| Proceeds from bond issuance | - | 97,992,628 |
| Payment of bond issuance costs | - | (1,143,573) |
| Repayment of note payable | - | (1,501,180) |
| Net cash (used) provided by financing activities | (30,865,000) | 22,102,875 |
| Change in cash and cash equivalents | 338,415 | (211,385) |
| Cash and cash equivalents – beginning of year | 1,056,606 | 1,267,991 |
| Cash and cash equivalents – end of year | $ 1,395,021 | $ 1,056,606 |

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Development Corporation

## Statements of Cash Flows (continued)

## For the years ended June 30, 2016 and 2015

**Supplemental disclosures of cash flow information:**

| | 2016 | 2015 |
|---|---|---|
| Cash paid during the year for interest | $ 5,116,910 | $ 2,602,128 |

The accompanying notes are an integral part of these financial statements

# Euclid Avenue Development Corporation

## Notes to Financial Statements

## June 30, 2016 and 2015

**Note 1: Summary of Significant Accounting Policies**

Organization

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

On 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. Fenn Tower was completed in August 2006 and can house 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. 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 was completed. Euclid Commons was completed in September 2011 and can house approximately 600 residents. Part of the project included constructing a 292-car attached parking garage. The Corporation entered into a lease agreement with the University to operate the garage.

On September 1, 2009, the Corporation purchased 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. On April 1, 2015, the Corporation sold Heritage Suites.

On April 1, 2016, the Corporation purchased a home for the use of the University president. The home is referred to as the "President's Residence." The Corporation entered into a lease agreement with the University for use of the home.

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.

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

# Euclid Avenue Development Corporation

## Notes to Financial Statements

## June 30, 2016 and 2015

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

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments available for current use (excluding cash equivalents held in investment brokerage accounts) with an initial maturity of three months or less to be cash equivalents.

At various times during the years ended June 30, 2016 and 2015, the Corporation's operational cash bank balances exceeded the federally insured limits.

Student Accounts Receivable

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

At June 30, 2016 and 2015, the Corporation has recorded $12,000 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 collections experience.

Bond Issuance Costs

Bond issuance costs are capitalized and amortized over the life of the bonds utilizing the straight-line method. Amortization expense totaled $45,643 and $2,764,541 for the years ended June 30, 2016 and 2015, respectively. The amortization expense in fiscal 2015 was significantly greater than fiscal 2016 due to the refinancing of bond debt (see Note 4) during fiscal 2015 and the associated acceleration of amortization of prior issuance costs. Once fully amortized, such costs were removed from the Corporation's accounts.

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

Bond Issuance Costs (continued)

Future annual amortization expenses associated with the bond issuance costs are as follows for the fiscal years ending June 30:

| | | |
|---|---|---|
| 2017 | $ | 46,537 |
| 2018 | | 46,537 |
| 2019 | | 46,537 |
| 2020 | | 46,537 |
| 2021 | | 46,537 |
| Thereafter | | 833,965 |
| | $ | 1,066,650 |

Property and Equipment

Property and equipment is valued at cost when purchased or, if received through a donation, the 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 expensed as incurred. Additions and major improvements are capitalized. Depreciation expense totaled $2,138,362 and $2,134,803 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, there was no interest income or expense capitalized.

Security Deposits

Security deposits represent housing deposits made by residents of the Corporation's facilities 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), housing for the summer session, and housing and related services for attendees of the Republican National Convention in July of 2016.

Management Fees

For the years ended June 30, 2016 and 2015, the Corporation has management agreements with ACC for Fenn Tower and Euclid Commons whereby ACC is paid a base compensation fee, as adjusted for inflation, and an incentive fee as a function of gross revenue. A management agreement with ACC for Heritage Suites expired during fiscal 2015 when the property was sold. The agreements expire on July 31, 2020 and may be extended upon approval by both parties.

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

### Interest Expense

Interest expense includes interest incurred on the Corporation's note and bonds payable and the associated remarketing fees and letter of credit fees. During fiscal 2015, new bonds were issued at a premium (see Note 4) and interest expense is shown net of the amortization of the premium. The premium is being amortized on a straight-line basis over the term of the underlying bonds payable.

### 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.

Uncertain income tax positions are evaluated at least annually by management. The Corporation classifies interest and penalties related to income tax matters as general and administrative expense in the accompanying financial statements. As of June 30, 2016 and 2015, the Corporation has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the years then ended.

The Corporation files its Federal Form 990 in the U.S. federal jurisdiction and a state registration in the office of the state's attorney general for the State of Ohio.

### Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 13, 2016, the date the financial statements were made widely available.

## Note 2: Restricted Investments

Investments are carried at fair value. At June 30, 2016 and 2015, the Corporation had the following investments classified as restricted investments:

| | 2016 | 2015 |
|---|---|---|
| U.S. Treasuries | $ - | $ 30,093,137 |
| Commercial paper | 4,831,875 | 3,766,436 |
| | $ 4,831,875 | $ 33,859,573 |

## Note 2: Restricted Investments (continued)

The restricted investments held in U.S. Treasuries were maintained in an escrow account and were restricted for repayment of defeased Series 2005 bonds payable (see Note 4). Redemption of these bonds occurred on August 1, 2015.

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

## Note 3: Investments

Investments are reported at fair value with any realized and unrealized gains and losses reported in the statements of activities. Investment income is recognized in the period it is earned, and gains and losses are recognized as changes in net assets in the accounting period in which they occur. At June 30, 2016 and 2015, investments consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Money market funds | $ 729,705 | $ 1,805,426 |
| Exchange traded funds | 4,315,175 | 4,309,869 |
| Mutual funds | 8,695,072 | 12,600,468 |
| Total | $ 13,739,952 | $ 18,715,763 |

## Note 4: 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 were serial bonds maturing between 2008 and 2036. The Series 2005 Bonds were subject to a fixed charges coverage ratio. As discussed below, these bonds were defeased in fiscal 2015 and were redeemed on August 1, 2015.

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 were demand bonds maturing at various dates through 2039. The bonds were secured by the assignment of rents due from the University. During fiscal 2015, these bonds were redeemed as below discussed.

### Note 4: 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 in the amount of $14,786,028 with the Trustee. The Letter of Credit Agreement with the Trustee was subsequently extended to January 25, 2015 and terminated December 24, 2014 with the redemption of the underlying bonds. Through the termination date, the letter of credit fee was computed at the rate of .6% per annum, of the average daily letter of credit amount, payable quarterly.

On December 18, 2009, the Corporation issued a total of $59,005,000 of Cuyahoga County Revenue Bonds ("Series 2009 Bonds"), consisting of $51,935,000 of Cuyahoga County Housing Revenue Bonds, Series 2009A and $7,070,000 of Cuyahoga County Economic Development Revenue Bonds, Series 2009B. The proceeds were used to finance the construction of Euclid Commons, which includes an attached parking garage. The Series 2009 Bonds were demand bonds maturing at various dates through 2039. The bonds were secured by the assignment of rents due from the University. During fiscal 2015, these bonds were redeemed as below discussed.

In order to hedge against the risk of rising interest rates on the Series 2009 Bonds, the Corporation had an interest rate cap contract, which effectively capped interest at a maximum rate of 1.25% on a notional amount of approximately $29,000,000. The interest rate cap contract was terminated due to the redemption of debt in December 2014.

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 in the amount of $59,554,636 with the Trustee, with a stated expiration date of December 17, 2012. The Letter of Credit Agreement was renewed, effective December 17, 2012, with an amended expiration date of December 17, 2015 and terminated December 24, 2014 with the redemption of the underlying bonds. Through the termination date, the letter of credit fee was computed at the rate of .85% per annum, of the average daily letter of credit amount, payable quarterly.

On December 9, 2014, the Cleveland-Cuyahoga County Port Authority ("Port Authority") issued $88,945,000 of Cleveland-Cuyahoga County Port Authority Development Revenue Bonds ("Series 2014 Bonds"). The Port Authority entered into a loan agreement with the Corporation to loan the bond proceeds to the Corporation. The proceeds were used by the Corporation to refund the Series 2005 Bonds, the Series 2008 Bonds, and the Series 2009 Bonds and to pay certain costs of issuance of the Series 2014 Bonds. A portion of the Series 2014 Bonds ($1,455,000) matured August 1, 2015 with a fixed rate of interest of 1%. The remaining Series 2014 Bonds mature at various dates from August 1, 2016 through August 1, 2044 with a fixed rate of interest of 5%. The bonds are secured by the assignment of all revenues from the Corporation.

### Note 4: Bonds Payable (continued)

The Series 2014 Bonds were issued pursuant to a Trust Indenture dated December 1, 2014, between the Cleveland-Cuyahoga County Port Authority and the Trustee.

The Series 2014 Bonds were issued at a premium of $9,047,628 which will be amortized over the terms of the underlying bonds. Future amortization of the premium is expected to be $376,105 a year for each of the next five years.

Future maturities of the Series 2014 Bonds are as follows for the fiscal years ending June 30:

| | |
|---|---|
| 2017 | $ 1,500,000 |
| 2018 | 1,575,000 |
| 2019 | 1,660,000 |
| 2020 | 1,745,000 |
| 2021 | 1,830,000 |
| Thereafter | 79,180,000 |
| | $ 87,490,000 |

### 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 measured at fair value consisted of the following at June 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 729,705 | $ - | $ - | $ 729,705 |
| Commercial paper | 4,831,875 | - | - | 4,831,875 |
| Exchange traded funds | 4,315,175 | - | - | 4,315,175 |
| Mutual funds: | | | | |
| Domestic – equities | 1,460,267 | - | - | 1,460,267 |
| Domestic – fixed-income | 4,058,674 | - | - | 4,058,674 |
| International – equities | 2,501,704 | - | - | 2,501,704 |
| International – fixed-income | 674,427 | - | - | 674,427 |
| | $ 18,571,827 | $ - | $ - | $ 18,571,827 |

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

Financial assets measured at fair value consisted of the following at June 30, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 1,805,426 | $ - | $ - | $ 1,805,426 |
| Commercial paper | 3,766,436 | - | - | 3,766,436 |
| U.S. Treasuries | - | 30,093,137 | - | 30,093,137 |
| Exchange traded funds | 4,309,869 | - | - | 4,309,869 |
| Mutual funds: | | | | |
| Domestic – equities | 1,573,818 | - | - | 1,573,818 |
| Domestic – fixed-income | 7,894,491 | - | - | 7,894,491 |
| International – equities | 2,454,800 | - | - | 2,454,800 |
| International – fixed-income | 677,359 | - | - | 677,359 |
| | $ 22,482,199 | $ 30,093,137 | $ - | $ 52,575,336 |

The Corporation's U.S. Treasuries were categorized as level two, as they are valued based on the last trade that occurred in the year ended June 30, 2015.

The Corporation's mutual funds and exchange traded funds are valued at the daily closing price reported by the fund.

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 amount of the Series 2005 Bonds was $-0- and $29,410,000 at June 30, 2016 and 2015, respectively. The carrying amount of the Series 2005 Bonds at June 30, 2015 was a reasonable estimate of their fair value as the bonds were defeased as of June 30, 2015 and are recorded at the known redemption amount, due one month later. The bonds were redeemed in full during fiscal year 2016.

The carrying amount of the Series 2014 Bonds was $95,949,437 and $97,780,542 (including unamortized premium of $8,459,437 and $8,835,542, respectively) at June 30, 2016 and 2015, respectively. The estimated fair value, based on the fixed interest rate of the bonds and current market yields for bonds of similar maturity dates, was approximately $101,000,000 and $105,000,000 at June 30, 2016 and 2015, respectively. The difference in the carrying value and the estimated fair value is primarily due to the fixed rate on the bonds being slightly greater than current rates observed in the market.

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

The carrying value of the leases receivable at June 30, 2016 is deemed to be reflective of their fair value as the agreement calls for payments to be received sufficient to cover the obligations under the fixed-rate debt associated with the leased property.

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.

### 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. Rent expense under this lease was $-0- and $693,750 for the years ended June 30, 2016 and 2015, respectively. Rent payable under this lease was $333,750 and $933,750 at June 30, 2016 and 2015, respectively. 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 2014 Bonds that refunded the Series 2008 Bonds, plus any other amount due to the Trustee under the Reimbursement Agreement. Upon termination of the lease, the Corporation will transfer title of the parking facility to the University. As such, the Corporation has recorded a lease receivable in the amount of $13,235,000 and $13,235,000 as of June 30, 2016 and 2015, respectively, which represents the amount outstanding on the Series 2014 Bonds that refunded the Series 2008 Bonds as of June 30, 2016 and 2015. Interest income is recognized based on the interest expense incurred on the Series 2014 Bonds that refunded the Series 2008 Bonds.

On March 9, 2009, the Corporation entered into a 50-year lease with the University for the leasehold interest in the land upon which the Euclid Commons building was constructed. Rent expense under this lease was $-0- and $3,931,250 for the years ended June 30, 2016 and 2015, respectively. Rent payable under this lease was $1,891,250 and $5,291,250 at June 30, 2016 and 2015, respectively. The University has a subordinate position on the assignment of rents and other assets from Euclid Commons.

### Note 6: Leases (continued)

On July 1, 2011, the Corporation entered into a 30-year lease with the University for the parking garage facility attached to the Euclid Commons residence halls. Under the terms of the lease, the University has been granted sole and exclusive charge of the operations of the parking garage facility during the lease term in exchange for making monthly rental payments in the amount equal to the required debt service payments on the related bonds, plus any other amounts due to the Trustee under the Reimbursement Agreement.

Upon termination of the lease, the Corporation will transfer title of the parking facility to the University. As such, the Corporation recorded a lease receivable in the amount of $6,370,000 and $6,370,000 as of June 30, 2016 and 2015, respectively, which represents the amount outstanding on the Series 2014 Bonds that refunded the Series 2009B Bonds as of June 30, 2016 and 2015. Interest income is recognized based on the interest expense incurred on the Series 2014 Series Bonds that refunded the Series 2009B Bonds.

At the time of the refunding, the Corporation chose to utilize certain funds held by the trustee to pay a portion of outstanding principal on all series of bonds. The Corporation has elected not to seek recovery of such payment from the University. As such, the accompanying statement of activities for the year ended June 30, 2015 reflects this as “Write-down of leases receivable.”

On April 1, 2016, the Corporation entered into a 15-month lease with the University for the President’s Residence. Annual rent is $56,460. The rent was arrived at in part to cover the estimated rate of return on the assets used to fund the purchase of the President’s Residence plus 75 basis points. As a result, the lease allows the Corporation to adjust the rent once each biennium in Ohio, beginning July 1, 2019, to reflect the estimated rate of return, as defined. The lease includes the option to renew the lease up to nine times, for a two-year period each renewal, at the option of the tenant.

### Note 7: Subleases

The Corporation subleases conference facilities within Fenn Tower and Euclid Commons to the University totaling approximately 30,000 square feet. Monthly payments related to Fenn Tower are $39,155 through July 2036, and to Euclid Commons are $23,715 through August 2042. Until the sale of the property on April 1, 2015, the Corporation also subleased facility space at Heritage Suites to a third-party. Monthly payments were $8,333.

In July 2009, 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.

**Note 7: Subleases (continued)**

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

| | |
|---|---|
| 2017 | $ 754,445 |
| 2018 | 754,445 |
| 2019 | 754,445 |
| 2020 | 754,445 |
| 2021 | 754,445 |
| Thereafter | 13,110,741 |
| | $ 16,882,966 |

**Note 8: Related Party Transactions**

Related party transactions, other than those disclosed in Note 6, are as follows:

Cash held by the University totaled $317,173 and $105,060 at June 30, 2016 and 2015, respectively, and represents amounts collected on behalf of the Corporation that have not been remitted to the Corporation.

At June 30, 2016 and 2015, included in accounts payable for utilities expenses due to the University was $-0- and $63,446, respectively.

The University paid the Corporation $1,967,315 and $1,605,559 for rental and maintenance fees related to space occupied by the University during the years ended June 30, 2016 and 2015, respectively.

The Corporation incurred interest expense of $-0- and $105,272 to The Cleveland State University Foundation, Inc. during the years ended June 30, 2016 and 2015, respectively.

**Note 9: Functional Expenses**

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

| | 2016 | 2015 |
|---|---|---|
| Program services | $ 9,450,513 | $ 17,613,479 |
| Management and general | 228,948 | 296,879 |
| | $ 9,679,461 | $ 17,910,358 |

### Note 10: Prior Period Adjustment

During fiscal 2016, management discovered that it had misinterpreted language within lease agreements with the University as it related to conditional rents payable to the University out of net available cash flow, as defined in the agreements. The Corporation initially viewed the conditional rents as payable at the option of the Corporation rather than being mandatory. Management has restated fiscal 2014 ending net assets and fiscal 2015 amounts. Differences resulting from the prior period adjustment on amounts previously reported are shown below.

| | As of and for the year ended June 30, 2015 | | |
|---|---|---|---|
| | As originally reported | Adjustment | Restated |
| Rent payable to the University | $ - | $ 6,225,000 | $ 6,225,000 |
| Total current liabilities | 33,897,601 | 6,225,000 | 40,122,601 |
| Total liabilities | 131,424,380 | 6,225,000 | 137,649,380 |
| Net assets, beginning of year | $ 4,612,446 | $ (1,600,000) | $ 3,012,446 |
| Net assets (deficit), end of year | 3,579,908 | (6,225,000) | (2,645,092) |
| Total net assets (deficit) | 3,579,908 | (6,225,000) | (2,645,092) |
| Rent expense | $ - | $ 4,655,611 | $ 4,655,611 |
| Other operating expense | 124,531 | (30,611) | 93,920 |
| Total expenses and losses | 13,285,358 | 4,625,000 | 17,910,358 |
| Change in net assets (deficit) | (1,032,538) | (4,625,000) | (5,657,538) |

### Note 11: Net asset (deficit)

The Corporation has a net asset deficiency at June 30, 2016 and 2015. The deficiency is mainly due to rents payable to the University from net available cash flow that resulted primarily from bonds refunded in fiscal 2015. In refunding the bonds, the Corporation received a premium (see Notes 1 & 4). The influx of cash associated with the bond refinancing triggered conditional rental payment obligations under lease agreements with the University as the Corporation had net available cash flow. Under the ASC, the bond premium is being recognized as a reduction of interest expense over the term of the Series 2014 bonds. Over the remaining term of the bonds, the premium will reduce interest expense by approximately $8.46 million. The future reductions in recognized interest expense from the bond premium are greater than the net asset deficiency at June 30, 2016.

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# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Euclid Avenue Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Euclid Avenue Development Corporation (a nonprofit organization) (the "Corporation"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2016.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness. [2016-001]

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-002.

**Euclid Avenue Development Corporation's Response to Findings**

The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Ciuni + Panichi, Inc.

Cleveland, Ohio
October 13, 2016

# Euclid Avenue Development Corporation

## Schedule of Findings and Responses

## For the year ended June 30, 2016

**2016 – 001: Material Weakness – Understanding of Obligations under Lease Agreements**

**Condition:**
Conditional rent expense under leases with the University was not timely identified and recorded by the Corporation. The lease agreements define provisions for additional rents to be paid to the University on an annual basis based upon a calculation of net available cash flow.

**Criteria:**
The internal control structure should ensure that processes are in place to ensure key provisions of such lease agreements are understood and that the resultant obligations under such agreements are timely and accurately recorded.

**Cause:**
The appears to have been a misinterpretation of the lease agreements by management of the Corporation in that they viewed the payment of conditional rents to be at the option of the Corporation as opposed to a mandatory requirement.

**Effect:**
Absent internal controls to ensure timely and accurate recording of conditional rents payable under leases, the Corporation is susceptible to an increased risk of material misstatement of their financial position and results of operations.

**Recommendation:**
Coincidental with the drafting of lease (or other) agreements, management should document all expected future obligations (liabilities) under such agreements, and the timing thereof. Management should discuss its understanding with legal counsel assisting with the drafting of such agreements to ensure that their intentions are supported by the terms of the legal contract prior to executing such contracts. Management should then determine and document procedures to be performed to ensure that the obligations arising under such contracts are timely and accurately recorded. Such procedures should include the review of an official separate from those responsible for recording the transactions.

**Management's Response:**
Management agrees that there was a misinterpretation of the lease agreements between the Corporation and the University. Management has reviewed the lease agreements and consulted with the Corporation's legal counsel to fully understand the intentions and obligations set forth in the agreements. Management has created and implemented procedures to calculate the net available cash flows annually. Prior to fiscal year end, management will meet with University officials to determine the amount of rent due to the University.

# Euclid Avenue Development Corporation

## Schedule of Findings and Responses

## For the year ended June 30, 2016

**2016 – 002: Instance of Noncompliance – Conditional Rents under Lease Agreements**

**Condition:**
The Corporation discovered in September 2016 that it had not been timely recording and remitting conditional rents payable on certain leases with the University.

**Criteria:**
To be compliant with the terms of the lease agreement, the Corporation must calculate, record, if applicable, and remit conditional rents payable to the University.

**Cause:**
The appears to have been a misinterpretation of the lease agreements by management of the Corporation in that they viewed the payment of conditional rents to be at the option of the Corporation as opposed to a mandatory requirement.

**Effect:**
Not timely recording the conditional rents payable overstated the Corporation's prior years ending net assets and the results of operations for the years in which conditional rents should have been accrued.

**Recommendation:**
Coincidental with the drafting of lease (or other) agreements, management should document all expected future obligations (liabilities) under such agreements, and the timing thereof. Management should discuss its understanding with legal counsel assisting with the drafting of such agreements to ensure that their intentions are supported by the terms of the legal contract prior to executing such contracts. Management should then determine and document procedures to be performed to ensure that the obligations arising under such contracts are timely and accurately recorded. Such procedures should include the review of an official separate from those responsible for recording the transactions.

**Management's Response:**
Management agrees that there was a misinterpretation of the lease agreements between the Corporation and the University. Management has reviewed the lease agreements and consulted with the Corporation's legal counsel to fully understand the intentions and obligations set forth in the agreements. Management has created and implemented procedures to calculate the net available cash flows annually. Prior to fiscal year end, management will meet with University officials to determine the amount of rent due to the University.

# Euclid Avenue Development Corporation

## Schedule of Prior Year Findings

## For the year ended June 30, 2016

No findings reported in the prior year.

**EUCLID AVENUE DEVELOPMENT 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 13, 2016**

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