Euclid Avenue Development Corporation

Financial Statements
June 30, 2017 and 2016

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, 2016 through June 30, 2017. 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

Dave Yost
Auditor of State

October 19, 2017

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Euclid Avenue Development Corporation

Financial Statements

June 30, 2017 and 2016

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Ciuni &
Panichi
CPAs and Business Advisors

Where Relationships Count.

Independent Auditor's Report

Board of Directors
Euclid Avenue Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Euclid Avenue Development Corporation (a nonprofit corporation) (the "Corporation"), a component unit of Cleveland State University, which comprise the statements of financial position as June 30, 2017 and 2016, 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, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2017 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
September 14, 2017

Euclid Avenue Development Corporation

Statements of Financial Position

June 30, 2017 and 2016

Assets

		2017		2016
Current assets:				
Cash and cash equivalents	$	1,651,768	$	1,077,848
Cash held by the University		649,772		317,173
Total cash and cash equivalents		2,301,540		1,395,021
Student accounts receivable, net		22,924		18,399
Other receivables		269,717		380,934
Investments		13,578,614		13,739,952
Prepaid expenses		66,568		10,986
Total current assets		16,239,363		15,545,292
Property and equipment:				
Land		128,000		128,000
Buildings		70,632,179		70,632,179
Building improvements		982,494		880,002
Furniture, fixtures, and equipment		3,185,545		3,139,207
		74,928,218		74,779,388
Less: accumulated depreciation		(17,649,919)		(15,476,892)
Property and equipment, net		57,278,299		59,302,496
Other assets:				
Restricted investments		4,958,330		4,831,875
Leases receivable		19,605,000		19,605,000
Total other assets		24,563,330		24,436,875
Total assets	$	98,080,992	$	99,284,663

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Financial Position (continued)

June 30, 2017 and 2016

Liabilities and Net Assets

	2017	2016
Current liabilities:		
Current portion of bonds payable	$ 1,575,000	$ 1,500,000
Accounts payable	361,419	274,510
Accrued interest	1,791,461	1,822,710
Accrued other	55,708	52,363
Deferred revenue	269,826	485,884
Rent payable to the University	-	2,225,000
Security deposits	231,967	188,315
Total current liabilities	4,285,381	6,548,782
Noncurrent liabilities, net of current portion:		
Deferred revenue	1,126,165	1,163,701
Bonds payable, net:		
Bonds payable	84,415,000	85,990,000
Add: bond premium, net	8,083,332	8,459,437
Less: bond issuance costs, net	(998,010)	(1,066,650)
Bonds payable, net	91,500,322	93,382,787
Total noncurrent liabilities, net of current portion	92,626,487	94,546,488
Total liabilities	96,911,868	101,095,270
Net assets (deficit):		
Unrestricted	1,169,124	(1,810,607)
Total net assets (deficit)	1,169,124	(1,810,607)
Total liabilities and net assets (deficit)	$ 98,080,992	$ 99,284,663

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Activities

For the years ended June 30, 2017 and 2016

		2017		2016
Revenues and gains:				
Rental income:				
Students	$	8,113,357	$	7,830,180
University		1,734,736		1,734,735
Other		98,910		52,469
Maintenance fees – University		241,952		232,580
Investment income (loss), net		1,618,207		(148,849)
Other		963,561		812,831
Total revenues and gains		12,770,723		10,513,946
Expenses and losses:				
Interest		4,047,403		4,199,804
Depreciation		2,173,027		2,138,362
Utilities		695,115		768,323
Contracted personnel		1,322,416		1,292,295
Management fees		296,351		293,389
Maintenance		365,117		621,069
General and administrative		252,224		175,011
Other operating		146,662		129,514
Marketing		36,209		27,474
Accounting		27,912		21,740
Reserve allowance		11,348		4,723
Insurance		7,580		7,757
Rent expense		409,628		-
Total expenses and losses		9,790,992		9,679,461
Change in net assets		2,979,731		834,485
Net assets (deficit) – beginning of year		(1,810,607)		(2,645,092)
Net assets (deficit) – end of year	$	1,169,124	$	(1,810,607)

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 2,979,731	$ 834,485
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,173,027	2,138,362
Amortization of debt issuance costs and bond premiums	(307,465)	(330,462)
Net realized and unrealized (gain) loss on investments	(1,300,350)	455,849
(Increase) decrease in assets:		
Student accounts receivable	(4,525)	391
Other receivables	111,217	(259,065)
Prepaid expenses	(55,582)	68,753
Increase (decrease) in liabilities:		
Accounts payable	86,909	998
Accrued interest	(31,249)	(586,644)
Accrued other	3,345	4,991
Deferred revenue	(253,594)	293,018
Security deposits	43,652	41,282
Rent payable to the University	(2,225,000)	(4,000,000)
Net cash provided (used) by operating activities	1,220,116	(1,338,042)
Cash flows from investing activities:		
Purchases of property and equipment	(148,830)	(1,006,203)
Net (purchases) sales of bond proceeds	(126,455)	29,027,698
Purchases of investments	(3,837,890)	(6,644,269)
Proceeds from sale of investments	5,299,578	11,164,231
Net cash provided by investing activities	1,186,403	32,541,457
Cash flow from financing activities:		
Principal payments on bonds payable	(1,500,000)	(30,865,000)
Net cash used by financing activities	(1,500,000)	(30,865,000)
Change in cash and cash equivalents	906,519	338,415
Cash and cash equivalents – beginning of year	1,395,021	1,056,606
Cash and cash equivalents – end of year	$ 2,301,540	$ 1,395,021

Supplemental disclosures of cash flow information:

	2017	2016
Cash paid during the year for interest	$ 4,386,117	$ 5,116,910

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2017 and 2016

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. On December 18, 2009, the Corporation entered into a lease agreement with the University to operate the garage.

On April 1, 2016, the Corporation purchased a home for the use of the University's 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

Reclassifications

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

Note 1: Summary of Significant Accounting Policies (continued)

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 with an initial maturity of three months or less to be cash equivalents (excluding cash equivalents held in investment brokerage accounts).

At various times during the years ended June 30, 2017 and 2016, 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, 2017 and 2016, the Corporation has recorded $12,000 and $12,000, 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.

Deferred Bond Issuance Costs

In fiscal year 2017, the Corporation adopted the guidance in FASB Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be accounted for as a reduction of the carrying amount of the debt rather than as an asset. The pronouncement was effective for nonpublic entities for fiscal years beginning after December 15, 2015 and required retrospective application to all periods presented. This resulted in the Corporation reclassifying the deferred bond issuance costs, net from an asset to a contra-liability as of June 30, 2017 and 2016. Implementation of this standard did not have a material impact on the financial statements. See additional disclosure in Note 5 to the financial statements.

Note 1: Summary of Significant Accounting Policies (continued)

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 $2,173,027 and $2,138,362 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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

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. The agreements expire on July 31, 2020 and may be extended upon approval by both parties.

Interest Expense

Interest expense includes interest incurred on the Corporation's bonds payable. The bonds were issued at a premium and issuance costs were incurred in relation to the issuance as well (Note 5). Interest expense is shown net of the annual amortization of the premium and of the issuance costs. The premium and the issuance costs are being amortized on a straight-line basis over the term of the underlying bonds payable.

Income Taxes

The Corporation is a not-for-profit corporation 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.

Note 1: Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Uncertain income tax positions are evaluated at least annually by management. The Corporation classifies interest and penalties related to income tax matters as general and administrative expense in the accompanying financial statements. As of June 30, 2017 and 2016, 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 September 14, 2017, the date the financial statements were made widely available.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities" ("ASU 2016-14"). The purpose of ASU 2016-14 is to improve the current net asset classification requirements and the information presented in financial statements about a not-for-profit entity's liquidity, financial performance, and cash flows. Organizations may use either a full retrospective or a modified retrospective approach to adopt ASU 2016-14. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. Earlier application is permitted. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Organizations may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which delayed the effective date of ASU 2014-09 by one year. ASU 2014-09, as amended, is effective for nonpublic companies for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous generally accepted accounting principles (GAAP). ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of ASU 2016-02 is permitted. The Corporation will be evaluating the potential impact of adopting this guidance on its financial statements.

Note 2: Restricted Investments

Investments are carried at fair value. At June 30, 2017 and 2016, the Corporation had the following investments classified as restricted investments:

	2017	2016
Commercial paper	$ 4,958,330	$ 4,831,875

The restricted investments are maintained in separate trust accounts as defined by the bond indenture. The 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, 2017 and 2016, investments consisted of the following:

	2017	2016
Money market funds	$ 684,941	$ 729,705
Exchange traded funds	4,489,905	4,315,175
Mutual funds	8,403,768	8,695,072
Total	$ 13,578,614	$ 13,739,952

Note 4: 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, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 684,941	$ -	$ -	$ 684,941
Commercial paper	4,958,330	-	-	4,958,330
Exchange traded funds	4,489,905	-	-	4,489,905
Mutual funds:				
Domestic – equities	1,674,339	-	-	1,674,339
Domestic – fixed-income	3,072,986	-	-	3,072,986
International – equities	3,299,097	-	-	3,299,097
International – fixed-income	357,346	-	-	357,346
	$ 18,536,944	$ -	$ -	$ 18,536,944

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

The Corporation's money market funds are valued at cost, which approximates fair value. The Corporation's commercial paper is valued at face value, which approximates fair value. The Corporation's mutual funds and exchange traded funds are valued at the daily closing price reported by the fund.

Note 5: Bonds Payable, Net

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.

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.

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 ($2,955,000) matured as of June 30, 2017. The remaining Series 2014 Bonds mature at various dates from August 1, 2017 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. In issuing the bonds, the Corporation recorded debt issuance costs with an original cost of $1,116,704 and accumulated amortization of $118,694 and $50,054 at June 30, 2017 and 2016, respectively.

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.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2017 and 2016

Note 5: Bonds Payable, Net (continued)

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.

Bonds payable, net, as of December 31, 2017 and 2016 is as follows:

	2017	2016
Bonds payable	$ 85,990,000	$ 87,490,000
Bonds premium	9,047,628	9,047,628
Bonds premium accumulated amortization	(964,296)	(588,191)
Bond issuance cost	(1,116,704)	(1,116,704)
Bond issuance cost accumulated amortization	118,694	50,054
Bonds payable net of unamortized premium and issuance costs	$ 93,075,322	$ 94,882,787

The aggregate amounts of maturities on bonds payable, net, as of December 31, 2017 are as follows:

Year	Loan principal	Premium amortization	Issuance cost amortization	Total change in loans payable
2018	$ 1,575,000	$ 376,105	$ (46,537)	$ 1,904,568
2019	1,660,000	376,105	(46,537)	1,989,568
2020	1,745,000	376,105	(46,537)	2,074,568
2021	1,830,000	376,105	(46,537)	2,159,568
2022	1,925,000	376,105	(46,537)	2,254,568
Thereafter	77,255,000	6,202,807	(765,325)	82,692,482
	$ 85,990,000	$ 8,083,332	$ (998,010)	$ 93,075,322

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 was equal to the net available cash flows from the Fenn Tower project. In fiscal year 2017 an amendment was made to the agreement whereby the University could reduce or waive rents due from the Corporation regardless of whether the Corporation had net available cash flows from the project. Rent expense under this lease was $60,000 and $-0- for the years ended June 30, 2017 and 2016, respectively. Rent payable under this lease was $-0- and $333,750 at June 30, 2017 and 2016, respectively. The University has a subordinate position on the assignment of rents and other assets from Fenn Tower.

Note 6: Leases (continued)

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

On July 1, 2008, the Corporation entered into a 30-year lease with the University for the parking garage facility. Under the terms of the lease, the University has been granted sole and exclusive charge of the operations of the parking garage facility during the lease term in exchange for making monthly rental payments in the amount equal to the required debt service payments on the Series 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 as of June 30, 2017 and 2016, which represents the amount outstanding on the Series 2014 Bonds (attributable to the parking garage facility) that refunded the Series 2008 Bonds as of June 30, 2017 and 2016. 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. Annual rent was equal to the net available cash flows from the Euclid Commons project. In fiscal year 2017 an amendment was made to the agreement whereby the University could reduce or waive rents due from the Corporation regardless of whether the Corporation had net available cash flows from the project. Rent expense under this lease was $340,000 and $-0- for the years ended June 30, 2017 and 2016, respectively. Rent payable under this lease was $-0- and $1,891,250 at June 30, 2017 and 2016, respectively. The University has a subordinate position on the assignment of rents and other assets from Euclid Commons.

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 as of June 30, 2017 and 2016, which represents the amount outstanding on the Series 2014 Bonds (attributable to the parking garage facility) that refunded the Series 2009B Bonds as of June 30, 2017 and 2016. Interest income is recognized based on the interest expense incurred on the Series 2014 Series Bonds that refunded the Series 2009B Bonds.

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 fixed-income assets used to fund the purchase of the President's residence plus 75 basis points (4.55% at June 30, 2017 and 2016). 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 $39,158 through July 2036, and to Euclid Commons are $23,715 through August 2042.

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.

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

2018	$ 754,476
2019	754,476
2020	754,476
2021	754,476
2022	754,476
Thereafter	12,356,732
	$ 16,129,112

Note 8: Related-Party Transactions

Related party transactions, other than those disclosed in Note 7, are as follows:

Cash held by the University totaled $649,772 and $317,173 at June 30, 2017 and 2016, respectively, and represents amounts collected on behalf of the Corporation that have not been remitted to the Corporation.

At June 30, 2017 and 2016, included in accounts payable for utilities expenses due to the University was $150,321 and $77,200, respectively.

The Corporation generated revenues from the University of $1,976,688 and $1,967,315 for rental and maintenance fees related to space occupied by the University during the years ended June 30, 2017 and 2016, respectively.

Note 9: Functional Expenses

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

	2017	2016
Program services	$ 9,463,299	$ 9,450,513
Management and general	327,693	228,948
	$ 9,790,992	$ 9,679,461

Note 10: Net Asset (Deficit)

The Corporation had a net asset deficiency at June 30, 2016. The deficiency was 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 (Notes 1 and 5). 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 (amended in fiscal 2017 as discussed in Note 6). Under the ASC, the bond premium is being recognized as a reduction of interest expense over the term of the Series 2014 bonds. As of June 30, 2017, over the remaining term of the bonds, the premium will reduce interest expense by approximately $8.08 million.

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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 corporation) (the "Corporation"), which comprise the statement of financial position as of June 30, 2017, 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 September 14, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Board of Directors
Euclid Avenue Development Corporation

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 14, 2017

Euclid Avenue Development Corporation

Schedule of Prior Year Findings

For the year ended June 30, 2017

Finding No.	Finding Summary	Fully Corrected	Explanation
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:** This 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.	Yes	The Corporation has since amended the underlying lease agreements. Under the amended lease agreements, University and Corporation officials meet annually to determine the amount of excess cash available for conditional rents payable, after accounting for needed reserves.

Euclid Avenue Development Corporation

Schedule of Prior Year Findings (continued)

For the year ended June 30, 2017

Finding No.	Finding Summary	Fully Corrected	Explanation
2016-001	***Material Weakness – Understanding of Obligations under Lease Agreements (continued):*** **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.		

Euclid Avenue Development Corporation

Schedule of Prior Year Findings (continued)

For the year ended June 30, 2017

Finding No.	Finding Summary	Fully Corrected	Explanation
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:** This 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.	Yes	The Corporation has since amended the underlying lease agreements. Under the amended lease agreements, University and Corporation officials meet annually to determine the amount of excess cash available for conditional rents payable, after accounting for needed reserves.

Euclid Avenue Development Corporation

Schedule of Prior Year Findings (continued)

For the year ended June 30, 2017

Finding No.	Finding Summary	Fully Corrected	Explanation
2016-002	***Instance of Noncompliance – Conditional Rents under Lease Agreements (continued):*** **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.		

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
NOVEMBER 9, 2017

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