

Euclid Avenue Development Corporation

**Financial Statements
June 30, 2015 and 2014**



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, 2014 through June 30, 2015. 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.

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

Dave Yost
Auditor of State

December 11, 2015

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Euclid Avenue Development Corporation

Financial Statements

June 30, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Euclid Avenue Development Corporation
Cleveland, Ohio

We have audited the accompanying financial statements of Euclid Avenue Development Corporation (the "Corporation"), a component unit of Cleveland State University, which comprise the statements of financial position as June 30, 2015 and 2014, 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.

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, 2015 and 2014, 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 30, 2015 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 30, 2015

Euclid Avenue Development Corporation

Statements of Financial Position

June 30, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 951,546	\$ 1,186,922
Cash held by the University	<u>105,060</u>	<u>81,069</u>
Total cash and cash equivalents	1,056,606	1,267,991
Student accounts receivable, net	18,790	31,027
Other receivables	121,869	40,953
Current portion of leases receivable	-	520,000
Investments	18,715,763	830,006
Investments restricted for repayment of defeased debt	30,093,137	-
Prepaid expenses	<u>79,739</u>	<u>96,819</u>
Total current assets	50,085,904	2,786,796
Property and equipment:		
Land	-	1,146,460
Building	69,960,179	70,448,479
Building improvements	722,463	334,891
Furniture, fixtures, and equipment	3,090,543	3,157,020
Construction in progress	<u>-</u>	<u>7,515</u>
	73,773,185	75,094,365
Less: accumulated depreciation	<u>(13,338,530)</u>	<u>(11,373,706)</u>
Property and equipment, net	60,434,655	63,720,659
Other assets:		
Restricted investments	3,766,436	22,046,456
Leases receivable, net of current portion	19,605,000	20,340,000
Interest rate cap	-	2,290
Deferred bond issuance costs, net of accumulated amortization of \$31,280 and \$838,322 at June 30, 2015 and 2014, respectively	<u>1,112,293</u>	<u>2,733,261</u>
Total other assets	<u>24,483,729</u>	<u>45,122,007</u>
Total assets	\$ <u>135,004,288</u>	\$ <u>111,629,462</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Financial Position (continued)

June 30, 2015 and 2014

Liabilities and Net Assets

	<u>2015</u>	<u>2014</u>
Current liabilities:		
Defeased bonds payable	\$ 29,410,000	\$ -
Current portion of bonds payable	1,455,000	1,655,000
Current portion of note payable	-	60,000
Accounts payable	273,512	537,403
Accrued interest	2,409,354	725,652
Accrued other	47,372	37,669
Deferred revenue	155,330	161,901
Security deposits	<u>147,033</u>	<u>159,438</u>
Total current liabilities	33,897,601	3,337,063
Noncurrent liabilities, net of current portion:		
Deferred revenue	1,201,237	1,238,773
Bonds payable, net of accumulated amortization of bond premium of \$212,086 and \$-0- at June 30, 2015 and 2014, respectively	96,325,542	101,000,000
Note payable	<u>-</u>	<u>1,441,180</u>
Total noncurrent liabilities, net of current portion	<u>97,526,779</u>	<u>103,679,953</u>
Total liabilities	131,424,380	107,017,016
Net assets:		
Unrestricted	<u>3,579,908</u>	<u>4,612,446</u>
Total liabilities and net assets	\$ <u>135,004,288</u>	\$ <u>111,629,462</u>

The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Statements of Activities

For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues and gains:		
Rental income:		
Students	\$ 7,887,134	\$ 8,493,599
University	1,379,432	944,468
Other	135,199	100,000
Maintenance fees – University	226,127	252,964
Investment income, net	89,156	139,605
Gain on sale of property and equipment (Heritage Suites)	1,510,609	-
Other	<u>1,025,163</u>	<u>484,667</u>
Total revenues and gains	12,252,820	10,415,303
Expenses and losses:		
Interest	4,079,373	2,152,209
Depreciation and amortization	4,899,344	2,193,356
Utilities	945,174	991,093
Contracted personnel	1,412,916	1,429,553
Management fees	324,492	328,239
Maintenance	447,316	453,042
General and administrative	235,746	150,323
Other operating	124,531	92,596
Marketing	37,371	35,819
Accounting	18,894	18,221
Reserve allowance	4,620	14,747
Insurance	8,291	8,789
Write-down of leases receivable (Note 7)	745,000	-
Change in value of interest rate cap	<u>2,290</u>	<u>37,146</u>
Total expenses and losses	<u>13,285,358</u>	<u>7,905,133</u>
Change in net assets	(1,032,538)	2,510,170
Net assets – beginning of year	<u>4,612,446</u>	<u>2,102,276</u>
Net assets – end of year	\$ <u><u>3,579,908</u></u>	\$ <u><u>4,612,446</u></u>

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, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (1,032,538)	\$ 2,510,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,687,258	2,193,356
Net unrealized loss (gains) on investments	7,736	(30,903)
Gain on sale of property and equipment	(1,510,609)	-
Change in value of interest rate cap	2,290	37,146
Write-down of leases receivable	745,000	-
(Increase) decrease in assets:		
Student accounts receivable	12,237	24,375
Other receivables	(80,916)	185,891
Leases receivable	510,000	505,000
Prepaid expenses	17,080	(73,846)
Increase (decrease) in liabilities:		
Accounts payable	(263,891)	70,393
Accrued interest	1,683,702	(89,710)
Accrued other	9,703	(2,411)
Deferred revenue	(44,107)	(17,839)
Security deposits	(12,405)	(26,565)
Net cash provided by operating activities	4,730,540	5,285,057
Cash flows from investing activities:		
Purchases of property and equipment	(550,717)	(228,882)
Proceeds from sale of property and equipment	3,212,527	-
Purchases of restricted investments, net	(11,813,117)	(3,898,910)
Purchases of investments	(21,897,403)	(802,087)
Proceeds from sale of investments	4,003,910	2,984
Net cash used by investing activities	(27,044,800)	(4,926,895)
Cash flow from financing activities:		
Repayment of bonds payable	(73,245,000)	(1,505,000)
Proceeds from bond issuance	97,992,628	-
Payment of bond issuance costs	(1,143,573)	-
Repayment of note payable	(1,501,180)	(60,000)
Net cash provided (used) by financing activities	22,102,875	(1,565,000)
Change in cash and cash equivalents	(211,385)	(1,206,838)
Cash and cash equivalents – beginning of year	1,267,991	2,474,829
Cash and cash equivalents – end of year	\$ 1,056,606	\$ 1,267,991

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, 2015 and 2014

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$	2,602,128	\$	2,241,919
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Non-cash financing and investing activities:

Change in accounts payable related to property and equipment purchases	\$	-	\$	20,979
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The accompanying notes are an integral part of these financial statements

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

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.

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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, the Corporation has recorded \$15,000 and \$45,000, 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 \$2,764,541 and \$113,265 for the years ended June 30, 2015 and 2014, respectively. The amortization expense in fiscal 2015 was significantly greater than fiscal 2014 due to the refinancing of bond debt (see Note 4) during fiscal 2015 and the associated acceleration of amortization of past issuance costs. Once fully amortized, such costs were removed from the Corporation's accounts.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

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:

2016	\$	46,537
2017		46,537
2018		46,537
2019		46,537
2020		46,537
Thereafter		<u>879,608</u>
	\$	<u>1,112,293</u>

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 \$2,134,803 and \$2,080,091 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 8) and housing for the summer session.

Management Fees

For the years ended June 30, 2015 and 2014, the Corporation has management agreements with ACC for Fenn Tower and Euclid Commons. A management agreement with ACC for Heritage Suites was in place for the year ended June 30, 2014 and expired during fiscal 2015 when the property was sold. The agreements expire at various dates through July 31, 2020 and may be extended upon approval by both parties.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014, 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. The Corporation is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2012.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through September 30, 2015, the date the financial statements were made widely available.

Note 2: Restricted Investments

Investments are carried at fair value. At June 30, 2015 and 2014, the Corporation had the following investments classified as restricted investments:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ -	\$ 18,484,288
Certificates of deposit	-	3,562,168
U.S. Treasuries	30,093,137	-
Commercial paper	<u>3,766,436</u>	<u>-</u>
	<u>\$ 33,859,573</u>	<u>\$ 22,046,456</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 2: Restricted Investments (continued)

The restricted investments held in U.S. Treasuries are maintained in an escrow account and are 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, 2015 and 2014, investments are reported at fair value and consisted of the following:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 1,805,426	\$ 39,715
Exchange traded funds	4,309,869	184,770
Mutual funds	<u>12,600,468</u>	<u>605,521</u>
Total	\$ <u>18,715,763</u>	\$ <u>830,006</u>

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 are serial bonds maturing between 2008 and 2036. Interest rates are fixed and range from 3.0% to 5.0%. The Series 2005 Bonds were subject to a fixed charges coverage ratio. As below discussed, at June 30, 2015, these bonds have been defeased 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 are demand bonds maturing at various dates through 2039. Interest rates are determined by the remarketing agent based on a weekly index. At June 30, 2014, the variable rate was 0.07%. The bonds were secured by the assignment of rents due from the University. During fiscal 2015, these bonds were redeemed as below discussed.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

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 and at June 30, 2014, 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. Interest rates were determined by the remarketing agent based on a weekly index. At June 30, 2014, the variable rate was 0.06%. 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. At June 30, 2015 and 2014, the fair market value of the interest rate cap contract represented an asset of \$-0- and \$2,290, respectively.

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 and at June 30, 2014, 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) mature 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.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

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.

Maturities of the Series 2005 Bonds and the Series 2014 Bonds the years ending June 30 are as follows:

2016	\$ 30,865,000
2017	1,500,000
2018	1,575,000
2019	1,660,000
2020	1,745,000
Thereafter	<u>81,010,000</u>
	\$ <u>118,355,000</u>

Note 5: Note Payable

	<u>2015</u>	<u>2014</u>
Note payable dated June 16, 2009, due to The Cleveland State University Foundation (the "Foundation") beginning September 1, 2009, was due in monthly installments of \$5,000, plus fixed rate interest at 9%, through July 2039. The note was secured by a mortgage deed on the Heritage Suites' building and real property. The note was paid in full during the year ended June 30, 2015.	\$ -	\$ 1,501,180
Less: current portion	<u>-</u>	<u>(60,000)</u>
Note payable, less current portion	<u>\$ -</u>	<u>\$ 1,441,180</u>

Note 6: 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.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 6: Fair Value Measurements (continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>677,359</u>	<u>-</u>	<u>-</u>	<u>677,359</u>
	<u>\$ 22,482,199</u>	<u>\$ 30,093,137</u>	<u>\$ -</u>	<u>\$ 52,575,336</u>

Financial assets measured at fair value consisted of the following at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 18,524,003	\$ -	\$ -	\$ 18,524,003
Certificates of deposit	-	3,562,168	-	3,562,168
Interest rate cap	-	2,290	-	2,290
Exchange traded funds	184,770	-	-	184,770
Mutual funds:				
Domestic – equities	240,974	-	-	240,974
Domestic – fixed-income	200,225	-	-	200,225
International – equities	135,264	-	-	135,264
International – fixed-income	<u>29,058</u>	<u>-</u>	<u>-</u>	<u>29,058</u>
	<u>\$ 19,314,294</u>	<u>\$ 3,564,458</u>	<u>\$ -</u>	<u>\$ 22,878,752</u>

The interest rate cap agreements were valued based upon mark-to-market values provided by the counterparty to the agreements. The counterparty calculated this value using interest rates stated in the agreements, future anticipated rates, stated notional amounts, and amount of time remaining until maturity.

The Corporation's certificates of deposits were categorized as level two, as they are not actively traded and quoted on a daily basis.

The Corporation's U.S. Treasuries are 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 daily closing price reported by the fund.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 6: Fair Value Measurements (continued)

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.

At June 30, 2014, the carrying amounts of the Series 2008 Bonds, Series 2009 Bonds and leases receivable were reasonable estimates of their fair value based upon their variable interest rates and maturity dates.

The carrying amount of the note payable at June 30, 2014 approximated fair value as the fixed interest rate is similar to that which that would be paid currently.

The carrying amount of the Series 2005 Bonds was \$29,410,000 and \$30,150,000 at June 30, 2015 and 2014, respectively. The carrying amount of the Series 2005 Bonds at June 30, 2015 is 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 estimated fair value at June 30, 2014, based on the trade date nearest to June 30, 2014 was \$30,753,467. The difference in the carrying value and the estimated fair value at June 30, 2014 is primarily due to the credit rating of the Series 2005 Bonds being affected by the bond insurance agent’s credit rating.

The carrying amount of the Series 2014 Bonds was \$97,780,542 (including unamortized premium of \$8,835,542) at June 30, 2015. 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 \$105,000,000. 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.

The carrying value of the leases receivable at June 30, 2015 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.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 7: Leases

On March 1, 2005, the Corporation entered into a 31-year lease with the University for the Fenn Tower Building. Annual rent is equal to the net available cash flows from the Fenn Tower project. No rent was paid or due during the years ended June 30, 2015 and 2014. 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 \$14,110,000 as of June 30, 2015 and 2014, respectively, which represents the amount outstanding on the Series 2014 Bonds that refunded the Series 2008 Bonds as of June 30, 2015 and the original outstanding principal on the 2008 Series Bonds less payments made as of June 30 2014. 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 is equal to the net available cash flows from the Euclid Commons project. No rent was paid or due during the years ended June 30, 2015 and 2014. 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 and \$6,750,000 as of June 30, 2015 and 2014, respectively, which represents the amount outstanding on the Series 2014 Bonds that refunded the Series 2009B Bonds as of June 30, 2015 and the original outstanding principal on the Series 2009B Bonds less payments made as of June 30 2014. Interest income is recognized based on the interest expense incurred on the Series 2014 Series Bonds that refunded the Series 2009B Bonds.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 7: Leases (continued)

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."

Note 8: 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. For the year ended June 30, 2014 and 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 has 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:

2016	\$	754,445
2017		754,445
2018		754,445
2019		754,445
2020		754,445
Thereafter		<u>13,865,186</u>
	\$	<u>17,637,411</u>

Note 9: Related Party Transactions

Cash held by the University totaled \$105,060 and \$81,069 at June 30, 2015 and 2014, respectively, and represents amounts collected on behalf of the Corporation that has not been remitted to the Corporation.

At June 30, 2015 and 2014, included in accounts payable for utilities expenses due to the University was \$63,446 and \$261,345, respectively.

The University paid the Corporation \$1,605,559 and \$1,197,432 for rental and maintenance fees related to space occupied by the University during the years ended June 30, 2015 and 2014, respectively.

The Corporation incurred interest expense of \$105,272 and \$137,806 to the Foundation during the years ended June 30, 2015 and 2014, respectively.

Euclid Avenue Development Corporation

Notes to Financial Statements

June 30, 2015 and 2014

Note 10: Functional Expenses

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

	<u>2015</u>	<u>2014</u>
Program services	\$ 12,241,189	\$ 7,648,877
Management and general	<u>296,879</u>	<u>219,110</u>
	\$ <u>12,538,068</u>	\$ <u>7,867,987</u>

Note 11: Subsequent Events

In August 2015, the Corporation redeemed the defeased Series 2005 Bonds, both for their face value and for the final payment of interest on the bonds, due August 1, 2015. There were no funds remaining in the escrow account after the redemption.

In August 2015, the Corporation used available cash to make a \$4 million payment to the University under the Fenn Tower and the Euclid Commons land leases.

**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 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 (the “Corporation”), which comprise the statement of financial position as of June 30, 2015, 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 30, 2015.

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 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.

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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ciuni + Panichi, Inc.

Cleveland, Ohio
September 30, 2015



Dave Yost • Auditor of State

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 24, 2015**