

Euclid Avenue Development Corporation

Financial Report
June 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Euclid Avenue Development Corporation, Cuyahoga County, prepared by RSM US LLP, for the audit period July 1, 2019 through June 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 3, 2020

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RSM US LLP

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), which comprise the statement of financial position as of June 30, 2020, the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

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, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Corporation, as of and for the year ended June 30, 2019, were audited by other auditors, whose report, dated September 18, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of Euclid Avenue Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Euclid Avenue Development Corporation's 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 Euclid Avenue Development Corporation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
September 30, 2020

Euclid Avenue Development Corporation

**Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,794,437	\$ 2,812,957
Student accounts receivable, net	57,980	56,350
Other receivables	45,764	406,708
Investments	15,012,404	15,413,477
Prepaid expenses	31,061	14,147
Total current assets	18,941,646	18,703,639
Property and equipment:		
Land	128,000	128,000
Buildings	70,632,179	70,632,179
Building improvements	2,026,554	1,943,537
Furniture, fixtures, and equipment	3,316,654	3,246,824
	76,103,387	75,950,540
Less: accumulated depreciation	(23,795,497)	(21,758,290)
Property and equipment, net	52,307,890	54,192,250
Other assets:		
Restricted investments	5,716,348	4,656,136
Leases receivable	18,220,000	19,605,000
Total other assets	23,936,348	24,261,136
Total assets	\$ 95,185,884	\$ 97,157,025

See notes to financial statements.

Euclid Avenue Development Corporation

Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Liabilities and Net Assets		
Current liabilities:		
Current portion of bonds payable	\$ 1,830,000	\$ 1,745,000
Accounts payable	789,545	725,595
Due to the University	1,325,823	-
Accrued interest and other	1,641,851	1,774,654
Deferred revenue	63,145	232,823
Security deposits	194,888	232,096
Total current liabilities	5,845,252	4,710,168
Noncurrent liabilities, net of current portion:		
Deferred revenue	1,013,557	1,051,093
Bonds payable, net:	84,465,672	87,434,397
Total noncurrent liabilities, net of current portion	85,479,229	88,485,490
Total liabilities	91,324,481	93,195,658
Net assets:		
Without donor restrictions	3,861,403	3,961,367
Total net assets	3,861,403	3,961,367
Total liabilities and net assets	\$ 95,185,884	\$ 97,157,025

See notes to financial statements.

Euclid Avenue Development Corporation

Statements of Activities

Years Ended June 30, 2020 and 2019

	2020	2019
Revenues and gains:		
Rental income:		
Students	\$ 7,701,932	\$ 8,111,351
University	1,475,898	1,734,736
Other	93,996	94,358
Maintenance fees - University	216,333	212,498
Investment income, net	211,739	757,930
Other	313,272	624,730
Total revenues and gains	10,013,170	11,535,603
Expenses:		
Program services	9,192,418	9,964,017
Management and general	339,738	374,751
Total expenses	9,532,156	10,338,768
Other gain (loss):		
Loss on forgiveness of note receivable	(1,385,000)	-
Gain on bond extinguishment	804,022	-
Total other gain (loss)	(580,978)	-
Change in net assets without donor restrictions	(99,964)	1,196,835
Net assets:		
Beginning	3,961,367	2,764,532
Ending	\$ 3,861,403	\$ 3,961,367

See notes to financial statements.

Euclid Avenue Development Corporation

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Total
Contracted personnel	\$ 1,407,593	\$ -	\$ 1,407,593
Occupancy	1,913,450	-	1,913,450
Management	222,659	-	222,659
Other operating costs	90,875	-	90,875
Administrative costs	-	266,504	266,504
Accounting	-	31,044	31,044
Advertising and promotions	-	42,190	42,190
Insurance	11,099	-	11,099
Interest	3,509,535	-	3,509,535
Depreciation	2,037,207	-	2,037,207
Total expenses	\$ 9,192,418	\$ 339,738	\$ 9,532,156

See notes to financial statements.

Euclid Avenue Development Corporation

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services	Management and General	Total
Contracted personnel	\$ 1,317,815	\$ -	\$ 1,317,815
Occupancy	2,147,121	-	2,147,121
Management	309,826	-	309,826
Other operating costs	298,105	-	298,105
Administrative costs	-	310,872	310,872
Accounting	-	34,152	34,152
Advertising and promotions	-	29,727	29,727
Insurance	8,520	-	8,520
Interest	3,869,034	-	3,869,034
Depreciation	2,013,596	-	2,013,596
Total expenses	\$ 9,964,017	\$ 374,751	\$ 10,338,768

See notes to financial statements.

Euclid Avenue Development Corporation

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (99,964)	\$ 1,196,835
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,037,207	2,013,596
Amortization of debt issuance costs and bond premiums	(345,513)	(330,462)
Loss on forgiveness of note receivable	1,385,000	-
Gain on bond extinguishment	(804,022)	-
Net realized and unrealized gain on investments	204,139	(339,481)
(Increase) decrease in assets:		
Student accounts receivable, net	(1,630)	(31,771)
Other receivables	360,944	(121,853)
Prepaid expenses	(16,914)	20,313
Increase (decrease) in liabilities:		
Accounts payable	63,950	314,055
Due to the University	1,325,823	-
Accrued interest and other	(132,803)	(32,526)
Deferred revenue	(207,214)	(146,040)
Security deposits	(37,208)	27,930
Net cash provided by operating activities	3,731,795	2,570,596
Cash flows from investing activities:		
Purchases of property and equipment	(152,847)	(664,950)
Net (purchases of) proceeds from sale of restricted investments	(1,060,212)	192,559
Purchases of investments	(19,892,331)	(3,028,478)
Proceeds from sale of investments	20,089,265	2,945,562
Net cash used by investing activities	(1,016,125)	(555,307)
Cash flows from financing activities:		
Payment of bond issuance costs	(327,074)	-
Proceeds from bonds payable	19,942,884	-
Principal payments on bonds payable	(21,350,000)	(1,660,000)
Net cash used by financing activities	(1,734,190)	(1,660,000)
Change in cash and cash equivalents	981,480	355,289
Cash and cash equivalents		
Beginning	2,812,957	2,457,668
Ending	\$ 3,794,437	\$ 2,812,957
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 3,940,066	\$ 4,179,250

See notes to financial statements.

Euclid Avenue Development Corporation

Notes to Financial Statements

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 "University House." 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 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.

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, 2020 and 2019, the Corporation's cash bank balances exceeded the federally insured limits.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2020 and 2019, the Corporation has recorded \$47,000 and \$23,000, 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, net: Bond issuance costs, net, were incurred to obtain financing and are being amortized using the straight-line method over the terms of the related bonds issued.

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.

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, 2020 and 2019, 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) and housing for the summer session.

Revenue recognition policy: Revenue from rental income, maintenance fees, and summer leasing contracts is recognized when earned as per the terms of the underlying lease or sublease in accordance with ASC Topic 840, *Leases*.

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, 2021.

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 (Note 5). Interest expense is shown net of the annual amortization of the premium and issuance costs. The premium and the issuance costs are being amortized on a straight-line basis over the term of the underlying bonds payable.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes: The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the 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 management and general expense in the accompanying financial statements. As of June 30, 2020 and 2019, 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.

Recent accounting pronouncements: In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange transactions subject to the guidance issued under ASU 2014-09. This ASU gives further guidance related to when a contribution is deemed to be conditional such that recognition of revenue should be delayed until conditions are substantially met. This ASU is effective for fiscal years beginning after December 15, 2018 for recipients of funds and for fiscal years beginning after December 15, 2019 for resource providers. The Corporation has adopted this ASU in the current financial statements. The adoption of this ASU had no significant impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new lease guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 was initially due to be implemented in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In response to the Coronavirus Disease 2019 (COVID-19) pandemic which is adversely affecting the global economy, and causing significant and widespread business and capital disruptions, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)—Effective Dates for Certain Entities* in June, 2020. The amendments in this update defer the effective date of ASU 2016-02 for private entities to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application continues to be permitted which means that an entity may choose to implement these standards before those deferred effective dates. Management is in the process of evaluating the impact of this standard on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the presentation of restricted cash as included in the cash balances in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Corporation has adopted this ASU in the current financial statements. The adoption of this ASU had no significant impact on the financial statements.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through September 30, 2020, the date the financial statements were available to be issued.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 2. Restricted Investments

Investments are carried at fair value. At June 30, 2020 and 2019, the Corporation had the following investments classified as restricted investments:

	2020	2019
Commercial paper	\$ 5,716,348	\$ 4,656,136

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, 2020 and 2019, investments consisted of the following:

	2020	2019
Money market funds	\$ 4,377	\$ 80,404
Stocks and exchange traded funds	-	4,918,831
Mutual funds	15,008,027	10,414,242
Total	\$ 15,012,404	\$ 15,413,477

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.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

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

	2020			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 4,377	\$ -	\$ -	\$ 4,377
Mutual funds:				
Domestic – fixed-income	15,008,027	-	-	15,008,027
Total investments	<u>\$ 15,012,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,012,404</u>
Restricted investments - commercial paper	<u>\$ 5,716,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,716,348</u>

	2019			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 80,404	\$ -	\$ -	\$ 80,404
Stocks and exchange traded funds	4,918,831	-	-	4,918,831
Mutual funds:				
Domestic – equities	1,822,382	-	-	1,822,382
Domestic – fixed-income	4,051,150	-	-	4,051,150
International – equities	4,165,516	-	-	4,165,516
International – fixed-income	375,194	-	-	375,194
Total investments	<u>\$ 15,413,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,413,477</u>
Restricted investments - commercial paper	<u>\$ 4,656,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,656,136</u>

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, stocks, and exchange traded funds are valued at the daily closing price reported by the fund.

Note 5. Bonds Payable, Net

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 bonds issued in 2005 through 2009 and to pay certain costs of issuance of the Series 2014 Bonds. A portion of the Series 2014 Bonds (\$7,935,000) had matured as of June 30, 2020. The remaining Series 2014 Bonds mature at various dates from August 1, 2020 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 bond issuance costs associated with these bonds with an original cost of \$1,116,704 and accumulated amortization of \$215,730 and \$209,980 at June 30, 2020 and 2019, respectively.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 5. Bonds Payable, Net (Continued)

Unamortized bond issuance costs of \$181,602 were written-off during the year ended June 30, 2020 as a result of the Series 2019 Bond issuance.

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

The Series 2014 Bonds were issued at a premium of \$9,047,628 which are amortized over the terms of the underlying bonds. Unamortized bond premium of \$985,624 was recognized as a result of the Series 2019 Bond issue.

On August 8, 2019, the Cleveland-Cuyahoga County Port Authority issued Development Refunding Revenue Bonds in the principal amount of \$18,220,000. The Series 2019 Bonds were issued as fixed rate bonds with a maturity of August 1, 2044 and a coupon rate of 4%. The proceeds of the bonds totaled \$19,942,883, including a bond premium of \$1,722,883, which were used to (1) refund a portion (\$19,605,000) of the outstanding principal amount of the Series 2014 Bonds; and (2) to pay certain costs of issuance of the Series 2019 Bonds (\$327,074). In conjunction with the Series 2019 Bond issuance a portion of the Series 2014 Bond premium of \$985,624 was recognized and \$181,602 of bond issue costs were written off resulting in a gain from bond extinguishment of \$804,022. Additionally a loss of \$1,385,000 from the forgiveness of a portion of the note receivable from Cleveland State University was recognized. The forgiveness was a result of the bond premium received as a result of the Series 2019 Bond issue which lowered the lease obligation of Cleveland State University over the term of the bonds.

The Series 2019 Bonds were issued pursuant to a Trust Indenture dated August 1, 2019, between the Port Authority and the Trustee.

As noted above the Series 2019 Bonds were issued at a premium of \$1,722,884 which are amortized over the terms of the underlying bonds.

Bonds payable, net, as of June 30, is as follows:

	2020	2019
Bonds payable	\$ 79,625,000	\$ 82,755,000
Bond premium	9,607,151	9,047,628
Bond premium accumulated amortization	(1,933,720)	(1,716,507)
Bond issuance costs	(1,229,428)	(1,116,704)
Bond issuance costs accumulated amortization	226,669	209,980
Bonds payable, net	<u>\$ 86,295,672</u>	<u>\$ 89,179,397</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 5. Bonds Payable, Net (Continued)

The aggregate amounts of maturities on bonds payable, net, as of June 30, are as follows:

<u>Year</u>	<u>Loan Principal</u>	<u>Premium Amortization</u>	<u>Insurance Cost Amortization</u>	<u>Total Change in Loans Payable</u>
2021	\$ 1,830,000	\$ 376,105	\$ (45,641)	\$ 2,160,464
2022	1,925,000	376,105	(45,641)	2,255,464
2023	2,025,000	376,105	(45,641)	2,355,464
2024	2,130,000	376,105	(45,641)	2,460,464
2025	2,235,000	376,105	(45,641)	2,565,464
Thereafter	69,480,000	5,792,906	(774,554)	\$ 74,498,352
	<u>\$ 79,625,000</u>	<u>\$ 7,673,431</u>	<u>\$ (1,002,759)</u>	<u>\$ 86,295,672</u>

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 2019, an amendment was made to the agreement whereby EADC is refunding certain debt obligations for purposes of refinancing a portion of bonds maturing on August 1, 2044. Rent expense under this lease was \$75,000 and \$115,500 for each of the years ended June 30, 2020 and 2019, 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 East 21st Street 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 and Series 2019 Bonds that refunded bonds issued in 2008 and 2014 (See Note 5), 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 \$12,298,500 and \$13,235,000 as of June 30, 2020 and 2019, respectively, which represents the amount outstanding on the Series 2019 and 2014 Bonds (attributable to the parking garage facility) that refunded bonds issued in 2008 as of June 30, 2020 and 2019. Interest income is recognized based on the interest expense incurred on the Series 2019 and 2014 Bonds that refunded bonds issued in 2008 and 2014.

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 \$425,000 and \$654,500 for the years ended June 30, 2020 and 2019, respectively. The University has a subordinate position on the assignment of rents and other assets from Euclid Commons.

Euclid Avenue Development Corporation

Notes to Financial Statements

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 \$5,921,500 and \$6,370,000 as of June 30, 2020 and 2019, which represents the amount outstanding on the Series 2019 and 2014 Bonds (attributable to the parking garage facility) that refunded bonds issued in 2009 as of June 30, 2020 and 2019. Interest income is recognized based on the interest expense incurred on the Series 2019 and 2014 Bonds that refunded bonds issued in 2009 and 2014.

On April 1, 2016, the Corporation entered into a 15-month lease with the University for the University House. 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 University House plus 75 basis points (4.55% at June 30, 2020 and 2019). 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. The carrying value of this residence is \$1,213,747 which represents \$1,270,547 of cost and \$56,800 of accumulated depreciation. The Corporation plans to negotiate a renewal of the lease.

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:

2021	\$ 754,476
2022	754,476
2023	754,476
2024	754,476
2025	754,476
Thereafter	10,093,304
	<u>\$ 13,865,684</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 8. Related-Party Transactions

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

Cash due to the University totaled \$1,325,823 and \$0 at June 30, 2020 and 2019, respectively, and represents amounts owed to the University.

At June 30, 2020 and 2019, included in accounts payable for utilities expenses and cash held for the University was \$497,000 and \$246,407, respectively.

The Corporation generated revenues from the University of \$1,692,231 and \$1,947,234 for rental and maintenance fees related to space occupied by the University during the years ended June 30, 2020 and 2019, respectively.

Note 9. Liquidity and Availability of Resources

The Corporation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2020	2019
Cash and cash equivalents	\$ 3,794,437	\$ 2,812,957
Student accounts receivable, net	57,980	56,350
Other receivables	45,764	406,708
Investments	15,012,404	15,413,477
Total financial assets available within one year	<u>\$ 18,910,585</u>	<u>\$ 18,689,492</u>

All financial assets listed above are without donor restrictions. The Corporation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 10. Statements of Functional Expenses

The statements of functional expenses presents expenses by functional and natural classification. Expenses directly attributable to program services and management and general purposes are reported as expenses of that functional area. All expenses are directly attributable to functional expense categories and none were considered indirect costs requiring allocation.

Note 11. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries. The extent to which the coronavirus impacts the Corporation's financial condition, results of operations, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted, included new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

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**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***

Independent Auditor's Report

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, which comprise the statement of financial position as of June 30, 2020, 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, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Euclid Avenue Development 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 Euclid Avenue Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Euclid Avenue Development 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Euclid Avenue Development 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.

RSM US LLP

Cleveland, Ohio
September 30, 2020

OHIO AUDITOR OF STATE KEITH FABER



EUCLID AVENUE DEVELOPMENT CORPORATION

CUYAHOGA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 11/17/2020

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This report is a matter of public record and is available online at
www.ohioauditor.gov