

Euclid Avenue Development Corporation

Financial Report
June 30, 2024

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, 2023 through June 30, 2024. 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 cursive script that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

November 27, 2024

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Independent Auditor's Report

Board of Directors
Euclid Avenue Development Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Euclid Avenue Development Corporation (a nonprofit corporation) (the Corporation), which comprise the statements of financial position as of June 30, 2024 and 2023, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 11 to the financial statements, an impairment loss was recognized during the year ended June 30, 2024, related to certain property and equipment. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2024, 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 solely 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 the 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 the Corporation's internal control over financial reporting and compliance.

RSM US LLP

Cleveland, Ohio
October 30, 2024

Euclid Avenue Development Corporation

**Statements of Financial Position
June 30, 2024 and 2023**

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,368,759	\$ 3,714,628
Accounts receivable	403,359	476,699
Allowance for credit losses	-	(177,135)
Due from the University	414,247	624,202
Restricted investments	7,768,392	7,094,778
Prepaid expenses	59,824	307,061
Total current assets	11,014,581	12,040,233
Property and equipment:		
Land	4,623,000	4,623,000
Buildings	191,235,741	219,028,194
Building improvements	2,356,543	3,702,149
Furniture, fixtures and equipment	3,807,358	3,537,814
	202,022,642	230,891,157
Less accumulated depreciation	(25,455,015)	(33,270,014)
Property and equipment, net	176,567,627	197,621,143
Other assets:		
Investments	15,455,845	14,179,961
Leases receivable	18,220,000	18,220,000
Total other assets	33,675,845	32,399,961
Total assets	\$ 221,258,053	\$ 242,061,337

(Continued)

Euclid Avenue Development Corporation

Statements of Financial Position (Continued)

June 30, 2024 and 2023

	2024	2023
Liabilities and Net Assets		
Current liabilities:		
Current portion of bonds payable	\$ 4,520,000	\$ 2,130,000
Accounts payable	871,457	728,153
Accrued interest and other	4,648,679	4,697,545
Deferred revenue	70,282	449,215
Security deposits	597,538	614,187
Total current liabilities	10,707,956	8,619,100
Noncurrent liabilities, net of current portion:		
Deferred revenue	863,713	900,945
Bonds payable, net	225,350,893	230,419,384
Total liabilities	236,922,562	239,939,429
Net assets (deficit):		
Without donor restrictions	(15,664,509)	2,121,908
Total net assets (deficit)	(15,664,509)	2,121,908
Total liabilities and net assets (deficit)	\$ 221,258,053	\$ 242,061,337

See notes to financial statements.

Euclid Avenue Development Corporation

**Statements of Activities
Years Ended June 30, 2024 and 2023**

	2024	2023
Revenues and gains:		
Rental income:		
Students	\$ 19,004,105	\$ 19,061,400
University	1,543,287	1,533,288
Summer camp and other	511,324	649,451
Maintenance fees—University	226,070	253,118
Parking revenue	366,108	526,094
Tenant fees and other	557,640	565,787
Total revenues and gains	22,208,534	22,589,138
Expenses:		
Program services	25,298,712	23,645,932
Management and general	753,329	1,038,999
Total expenses	26,052,041	24,684,931
Investment income, net	2,076,375	1,414,564
Impairment loss on property and equipment	(16,019,285)	-
Change in net assets without donor restrictions	(17,786,417)	(681,229)
Net assets:		
Beginning—without donor restrictions	2,121,908	2,803,137
Ending—without donor restrictions	\$ (15,664,509)	\$ 2,121,908

See notes to financial statements.

Euclid Avenue Development Corporation

Statement of Functional Expenses

Year Ended June 30, 2024

	Program Services	Management and General	Total
Interest	\$ 10,617,151	\$ -	\$ 10,617,151
Depreciation	5,885,981	-	5,885,981
Occupancy	5,416,567	-	5,416,567
Contracted personnel	2,722,587	-	2,722,587
Administrative costs	-	633,892	633,892
Property management	519,056	-	519,056
Other operating costs	137,370	-	137,370
Advertising and promotions	-	88,210	88,210
Accounting	-	31,227	31,227
Total expenses	\$ 25,298,712	\$ 753,329	\$ 26,052,041

See notes to financial statements.

Euclid Avenue Development Corporation

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services	Management and General	Total
Interest	\$ 10,669,641	\$ -	\$ 10,669,641
Depreciation	5,405,612	-	5,405,612
Occupancy	4,583,052	-	4,583,052
Contracted personnel	2,130,311	-	2,130,311
Administrative costs	-	888,150	888,150
Property management	599,102	-	599,102
Other operating costs	258,214	-	258,214
Advertising and promotions	-	130,479	130,479
Accounting	-	20,370	20,370
Total expenses	\$ 23,645,932	\$ 1,038,999	\$ 24,684,931

See notes to financial statements.

Euclid Avenue Development Corporation

Statements of Cash Flows Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ (17,786,417)	\$ (681,229)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,885,981	5,405,612
Impairment loss on property and equipment	16,019,285	-
Amortization of debt issuance costs and bond premiums	(548,491)	(532,346)
Net realized and unrealized (gain) loss on investments	(2,076,375)	(1,306,775)
(Increase) decrease in assets:		
Accounts receivable, net	(103,795)	(112,060)
Due from the University	209,955	(579,416)
Prepaid expenses	247,237	(243,035)
Increase (decrease) in liabilities:		
Accounts payable	143,304	15,866
Accrued interest and other	(48,866)	3,192,820
Deferred revenue	(416,165)	374,139
Security deposits	(16,649)	495,982
Net cash provided by operating activities	1,509,004	6,029,558
Cash flows from investing activities:		
Acquisition of property and equipment	-	(152,241,015)
Purchases of property and equipment	(851,750)	(1,342,117)
Net purchases from sale of restricted investments	(673,614)	(2,424,218)
Proceeds from sale of investments	1,295,604	2,758,508
Purchases of investments	(495,113)	(2,574,913)
Net cash used in investing activities	(724,873)	(155,823,755)
Cash flows from financing activities:		
Payment of bond issuance costs	-	(1,813,925)
Proceeds from bonds payable	-	155,089,373
Principal payments on bonds payable	(2,130,000)	(2,025,000)
Net cash (used in) provided by financing activities	(2,130,000)	151,250,448
Change in cash and cash equivalents	(1,345,869)	1,456,251
Cash and cash equivalents		
Beginning	3,714,628	2,258,377
Ending	\$ 2,368,759	\$ 3,714,628
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 11,214,508	\$ 8,009,167

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 to plan, design and construct housing units in Fenn Tower. In addition, the Corporation entered into a management agreement with an unrelated entity. Fenn Tower was completed in August 2006 and has the capacity to 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 to design, construct and furnish housing units referred to as "Euclid Commons." In addition, the Corporation entered into a management agreement with an unrelated entity to manage Euclid Commons once construction was completed. Euclid Commons was completed in September 2011, and has the capacity to 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.

In July 2022, the Corporation purchased the Edge at 1650 Euclid Avenue and the Langston property at Chester Avenue, as well as a land lease. The Edge and the Langston properties have the capacity to house approximately 550 and 590 residents, respectively. The Corporation entered into a management agreement with an unrelated management company to manage the residential leases and retail space.

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 (U.S. GAAP). The financial statements have been prepared on the accrual basis of accounting.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP 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.

Net asset classification: The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the two classes of net assets, with donor restriction and without donor restriction, be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

These classes are defined as follows:

Without donor restrictions: This class consists of net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of the Corporation.

With donor restrictions: This class consists of net assets with donor restrictions whose use is limited by donor-imposed, time and/or purpose restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. The Corporation had no net assets with donor restrictions as of June 30, 2024 and 2023.

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, 2024 and 2023, the Corporation's cash bank balances exceeded the federally insured limits. At June 30, 2024 and 2023, the Corporation's bank balances exceeded these limits by \$1,212,031 and \$2,428,062, respectively.

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

Allowance for credit losses: At June 30, 2024 and 2023, the Corporation has recorded \$0 and \$177,135, respectively, as an allowance for potential uncollectible 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 as well as forward looking factors that impact collectability.

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 three 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, 2024 and 2023, there was no interest income or expense capitalized.

The Corporation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Corporation has determined that certain long-lived assets were impaired during the year ended June 30, 2024, and has recorded an impairment loss of \$16,019,285 at June 30, 2024 (see notes 4 and 11). No impairment loss was recognized at June 30, 2023.

Deferred revenue: Deferred revenue represents the unearned portion of rental revenue related to a sublease of property (see Note 7) and housing for the summer session.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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. These costs are reflected as a reduction of bonds payable on the statement of financial position.

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 842, Leases.

Statements of functional expenses: The statements of functional expenses present 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.

Management fees: The Corporation has management agreements with Greystar for Fenn Tower, Euclid Commons, the Edge and the Langston whereby Greystar is paid a base compensation fee, as adjusted for inflation.

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.

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, 2024 and 2023, 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.

Reclassifications: Certain prior year balances were reclassified to conform with the current year presentation.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through October 30, 2024, the date the financial statements were available to be issued.

Note 2. Restricted Investments

Restricted investments and deposits are carried at fair value. 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, Euclid Commons, the Edge and the Langston 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.

Euclid Avenue Development Corporation

Notes to Financial Statements

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, 2024 and 2023, investments consisted of the following:

	2024	2023
Money market funds	\$ 57,644	\$ 32,468
Exchange-traded funds	7,078,662	6,390,453
Stock mutual funds	3,441,166	-
Fixed-income mutual funds	4,878,373	7,757,040
Total	<u>\$ 15,455,845</u>	<u>\$ 14,179,961</u>

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:

	2024			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 57,644	\$ -	\$ -	\$ 57,644
Exchange-traded funds	7,078,662	-	-	7,078,662
Mutual funds:				
Stock	3,441,166	-	-	3,441,166
Domestic—fixed-income	4,878,373	-	-	4,878,373
Total investments	<u>\$ 15,455,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,455,845</u>
Restricted investments:				
Government Money				
Market Fund	<u>\$ 7,768,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,768,392</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

	2023			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 32,468	\$ -	\$ -	\$ 32,468
Exchange-traded funds	6,390,453	-	-	6,390,453
Mutual funds:				
Domestic—fixed-income	7,757,040	-	-	7,757,040
Total investments	<u>\$ 14,179,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,179,961</u>
Restricted investments:				
Government Money				
Market Fund	<u>\$ 7,094,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,094,778</u>

The Corporation's money market funds are valued at cost, 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.

During the year ended June 30, 2024, the Corporation identified indicators of impairment for Fenn Tower (Note 11). As a result, the Corporation performed an impairment test and determined that the carrying amount of the associated building and building improvements exceeded its recoverable amount. Consequently, an impairment loss was recognized.

The fair value of the building and improvements was determined using a third-party appraisal, which utilized the market approach and income approach. The market approach considers market transactions involving comparable assets. The income approach was performed utilizing a direct capitalization approach with a 7.5% capitalization rate. The fair value measurement is categorized within Level 3 of the fair value hierarchy.

The following table summarizes the fair value measurement of the impaired asset:

Asset Description	Carrying Amount (Before Impairment)	Fair Value	Impairment Loss
Building and building improvements	<u>\$ 16,019,285</u>	<u>\$ -</u>	<u>\$ 16,019,285</u>

Euclid Avenue Development Corporation

Notes to Financial Statements

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. The remaining Series 2014 Bonds mature at various dates 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 and the assets of the Corporation. In issuing the bonds, the Corporation recorded bond issuance costs associated with these bonds that will be amortized over the life of the bonds. The Series 2014 Bonds were issued at a premium, which is also being amortized over the terms of the underlying bonds. The Series 2014 Bonds were issued pursuant to a Trust Indenture dated December 1, 2014, between the Port Authority and the Trustee.

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. In conjunction with the Series 2019 Bond issuance, a portion of the Series 2014 Bond unamortized premium and unamortized bond issue costs were written off. As noted above, the Series 2019 Bonds were issued at a premium and certain issuance costs were incurred, which are amortized over the terms of the underlying bonds. The Series 2019 Bonds were issued pursuant to a Trust Indenture dated August 1, 2019, between the Port Authority and the Trustee.

On July 6, 2022, the Cleveland-Cuyahoga County Port Authority issued \$140,285,000 of tax-exempt Student Housing Facility Revenue Bonds, Series 2022A Bonds to finance the acquisition of student housing, parking facilities for student residents and certain issuance costs of the Series 2022A Bonds and \$6,650,000 of Student Housing Facility Revenue Bonds, Series 2022B for the acquisition of retail space related to the student housing facilities and for paying the costs of issuance of the Series 2022B Bonds on a federally taxable basis. The proceeds totaled \$155,089,373, including a bond premium of \$8,154,373. The Series 2022A Bonds were issued with coupon rates ranging from 5% to 5.5%, with an average of 5.4% over the life of the bonds and mature at various dates and amounts through August 1, 2052. The Series 2022B Bonds were issued with coupon rates ranging from 4.565% to 4.896%, with an average coupon rate of 4.8% over the life of the bonds and mature annually at various amounts through August 2026. The premium and certain issuance costs are amortized over the terms of the underlying bonds. The Series 2022 Bonds were issued pursuant to a Trust Indenture dated December 1, 2014, as amended and supplemented by the Second Supplemental Trust Indenture dated as of July 1, 2022, between the Port Authority and the Trustee.

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

	2024	2023
Bonds payable	\$ 218,650,000	\$ 220,780,000
Bond premium	17,761,528	17,761,524
Bond premium accumulated amortization	(4,080,583)	(3,402,298)
Bond issuance costs	(3,043,365)	(3,043,353)
Bond issuance costs accumulated amortization	583,313	453,511
Bonds payable, net	<u>\$ 229,870,893</u>	<u>\$ 232,549,384</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:

	Bond Payment	Unamortized Bond Premium	Unamortized Bond Issuance Cost	Bonds Payable, Net
Years ending June 31:				
2025	\$ 4,520,000	\$ 678,285	\$ (129,800)	\$ 5,068,485
2026	4,740,000	678,285	(129,800)	5,288,485
2027	4,980,000	678,285	(111,067)	5,547,218
2028	5,235,000	678,285	(109,364)	5,803,921
2029	5,500,000	678,285	(109,364)	6,068,921
Thereafter	193,675,000	10,289,520	(1,870,657)	202,093,863
	<u>\$ 218,650,000</u>	<u>\$ 13,680,945</u>	<u>\$ (2,460,052)</u>	<u>\$ 229,870,893</u>

Note 6. Leases

Leases as lessor: 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 an 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 as of June 30, 2024 and 2023, which represents the amount outstanding on the Series 2019 and 2014 Bonds (attributable to the parking garage facility) that refunded bonds issued in 2008. 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 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 as of June 30, 2024 and 2023, which represents the amount outstanding on the Series 2019 and 2014 Bonds (attributable to the parking garage facility) that refunded bonds issued in 2009. 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. On December 8, 2022, the Corporation executed a second amendment to the lease agreement establishing annual rent of \$60,000 payable in equal monthly installments. 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, with rent increasing by 3% at the commencement of each renewal term. The lease can be terminated upon 60 days' written notice by either the Corporation or tenant.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 6. Leases (Continued)

The Corporation leases retail space to various tenants under multi-year operating leases expiring between 2025 and 2035. Future minimum rentals to be received under noncancelable operating leases for each of the next four years are as follows for the years ending June 30:

2025	\$	110,030
2026		104,350
2027		86,047
2028		86,864
2029		76,381

Leases as lessee: 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 \$75,300 and \$75,000 for the years ended June 30, 2024 and 2023, 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 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 \$426,000 for each of the years ended June 30, 2024 and 2023. The University has a subordinate position on the assignment of rents and other assets from Euclid Commons.

On July 26, 2022, the Corporation entered into an amended and restated 65-year lease with the University for the leasehold interest in the land upon which the Langston project is located. 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, 2087.

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.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 7. Subleases (Continued)

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

2025	\$ 754,476
2026	754,476
2027	754,476
2028	754,476
2029	754,476
Thereafter	7,075,400
	<u>\$ 10,847,780</u>

Note 8. Real Estate Acquisition

FASB ASC Topic 805, Business Combinations (ASC 805), provides a “screen” to determine when a set is not a business. The screen requires that when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments (a) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (b) remove the evaluation of whether a market participant could replace missing elements. Among other amendments, ASC 805 also provides a framework to assist entities in evaluating whether both an input and a substantive process are present.

Based on its analysis under ASC 805, the Corporation concluded that the acquisition of the properties known as the Edge and Langston during the year ended June 30, 2023, would be accounted for as an asset acquisition after applying the “screen.” The Corporation determined that for each set the fair value of the gross assets acquired is concentrated in a single identifiable asset. In accordance with ASC 805, all acquisition-related costs are included in consideration paid and in the basis of the assets acquired. Upon acquisition of a property, the Corporation allocates the purchase price, inclusive of acquisition-related costs, based upon the relative fair values of the assets acquired, which consist of land and buildings and improvements.

In estimating the fair value of the assets acquired, the Corporation considers information obtained about the property as a result of its due diligence activities, including historical operating results, known trends and market conditions that may affect the property, and various valuation methods, such as comparisons to available market information.

The following table summarizes the consideration paid and the amounts of the assets acquired at the date of the acquisition for the property:

Land	\$ 4,495,000
Buildings and improvements	148,396,015
Net assets acquired and consideration paid in cash	<u>\$ 152,891,015</u>

In connection with the acquisition of the property, acquisition- and transaction-related costs of \$641,015 were incurred and included in net assets acquired.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 9. Related-Party Transactions

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

Cash due from the University totaled \$414,247 and \$624,202 at June 30, 2024 and 2023.

At June 30, 2024 and 2023, included in accounts payable for utilities expenses and cash held for the University was \$67,296 and \$92,662, respectively.

The Corporation generated revenues from the University of \$1,769,357 and \$1,786,406 for rental and maintenance fees related to space occupied by the University for the years ended June 30, 2024 and 2023, respectively. In conjunction with the lease agreement, the University is required to make sufficient payments to the Corporation to ensure that the Corporation meets its fixed charge coverage ratio. Accordingly, included in student rental income is \$1,000,000 of rental revenues from the University to support break-even occupancy to meet its fixed charge coverage ratio for the year ended June 30, 2024.

Note 10. 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:

	2024	2023
Cash and cash equivalents	\$ 2,368,759	\$ 3,714,628
Accounts receivable, net	403,359	299,564
Due from the University	414,247	624,202
Investments	15,455,845	14,179,961
Total financial assets available within one year	<u>\$ 18,642,210</u>	<u>\$ 18,818,355</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 11. Impairment Loss and Non-Monetary Default

Fenn Tower, historically known as the National Town and Country Club, was originally constructed in 1929, and is owned by the University and leased to the Corporation. Fenn Tower serves as a first-year residence hall for the University students and has approximately 430 beds.

A portion of the Series 2014 Bonds was issued to refinance certain bonds issued to finance the original acquisition and improvement of Fenn Tower. Revenues generated from the operation of the Corporation and assets of the Corporation, including Fenn Tower, were pledged to the payment of principal and interest on the Series 2014 Bonds.

Fenn Tower is listed on the National Register of Historic Places. During the year ended June 30, 2024, the Corporation conducted a façade assessment of Fenn Tower, which identified several structural and safety issues. As a result, Fenn Tower lost its certification of occupancy and required immediate action to safeguard the property.

Euclid Avenue Development Corporation

Notes to Financial Statements

Note 11. Impairment Loss and Non-Monetary Default (Continued)

The Corporation determined that it is in the best interest for the safety of University students and visitors to close Fenn Tower. The closure of Fenn Tower constitutes a non-monetary default under certain bond documents securing the Series 2014 Bonds. The University's requirement to make sufficient payments to the Corporation to ensure the Corporation meets its fixed charge coverage ratio required by the Series 2014 Bonds remains in place through the lease agreement with the Corporation, and the Corporation expects that it will continue to timely make its debt service payments when due on the Series 2014 Bonds.

The carrying value of Fenn Tower was assessed via an appraisal. (Note 4). Based on the current condition of the building and estimated costs to renovate, the recoverable amount of the building has decreased to zero. Management is in the process of evaluating options for the building, including but not limited to efforts to repair and renovate the building and return it to a revenue producing student housing facility, demolition or sale to a third party.

The Corporation recognized an impairment loss of \$16,019,285 for the year ended June 30, 2024 in the statement of activities. Management made the adjustment to properly present the financial statements in accordance with U.S. GAAP.

Due to the fact that the Fenn Tower is not a revenue producing facility, the Corporation is in non-monetary default on the Series 2014 Bonds. As a result, there are provisions in the bond documents that the bond holders can accelerate the outstanding principal amount, limited to the Series 2014 Bonds, to be paid immediately. The outstanding principal balance on the Series 2014 Bonds was \$53,495,000 at June 30, 2024. To date the Corporation has not received a notice of an event of default from the bond holders. However, if the Corporation were to receive notice of an event of default from the bond holders, it would raise substantial doubt about the Corporation's ability to repay the bond principal, and continue as a going concern.

The Corporation has received a financial support letter from the University that states its commitment to fully support the operating, investing and financing activities of the Corporation through October 31, 2025 to mitigate doubts about the Corporation's ability to repay bond principal and continue as a going concern.

**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 (*Government Auditing Standards*), the financial statements of Euclid Avenue Development Corporation, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2024.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, 2024-001 and 2024-002 described in the accompanying schedule that follows this report as items that we consider to be significant deficiencies.

Government Auditing Standards requires the auditor to perform limited procedures on the Corporation's response to the findings identified in our audit and described previously. The Corporation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Report on 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 financial statements. 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
October 30, 2024

Euclid Avenue Development Corporation
June 30, 2024
Schedule of Findings

2024-01 – Impairment Loss

Criteria: Management is responsible for the design and operation of internal controls such that it can report in accordance with accounting principles generally accepted in the United States of America.

Context: During our audit we identified a deficiency in the design and operation of internal controls regarding the determination and presentation of impairment losses in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Management identified a potential impairment loss, however, did not have the sufficient knowledge and expertise to apply the required guidance for this nonroutine transaction.

Effect: Management needed significant assistance in determining the proper accounting for the impairment loss recorded.

Recommendation: We recommend management obtain additional knowledge and understanding regarding the requirements of Accounting Standards Codification (ASC) 360, Property, Plant and Equipment

Management Response: Management understands the need to understand impairment guidance and will work to obtain further education.

2024-02 – Presentation of Property and Equipment

Criteria: Management is responsible for the design and operation of internal controls such that it can report in accordance with accounting principles generally accepted in the United States of America.

Context: During our audit we identified a deficiency in the operation of controls over the presentation of fully depreciated assets within the financial statements. We identified that certain property and equipment, while still present and in service, was written-off due to it being fully depreciated. The error was not identified during management's established review process.

Effect: The presentation of property and equipment was understated on a gross basis. Accordingly, to correct this error, an audit adjustment was required to gross up the respective building improvements, furniture, fixtures, and equipment and associated accumulated depreciation.

Recommendation: We recommend management implement additional financial reporting reviews to ensure the financial statements are appropriately presented in accordance with U.S. GAAP.

Management Response: Management believes this was an isolated instance related to the adoption of a new fixed asset software and will add an additional review should this occur again.

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 12/10/2024

65 East State Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

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