

ASSOCIATED ESTATES REALTY CORP
Form 11-K
June 30, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ending December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____
Commission file number 333-27429

THE AERC 401(K) SAVINGS PLAN AND TRUST

(Exact name of Plan)

001

Plan Number

ASSOCIATED ESTATES REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of

34-1747603

(I.R.S. Employer

incorporation or organization)

Identification No.)

5025 Swetland Court, Cleveland, Ohio

44143-1467

(Address of principal executive offices)

(Zip Code)

(216) 261-5000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,

if changed since last report)

THE AERC 401(K) SAVINGS PLAN AND TRUST

December 31, 2002

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Independent Auditors' Report

To the Trustees

The AERC 401(K) Savings Plan and Trust

We have audited the financial statements of the AERC 401(K) Savings Plan and Trust (the "Plan") as of December 31, 2002 and 2001 and for the year ended December 31, 2002 and the supplemental schedule as of December 31, 2002, as listed in the accompanying contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the AERC 401(K) Savings Plan and Trust as of December 31, 2002 and 2001, and the changes in net assets available for plan benefits for the year ended December 31, 2002.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment as of December 31, 2002, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule has

been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Reznick, Fedder & Silverman

Bethesda, Maryland

May 16, 2003

The AERC 401(K) Savings Plan and Trust

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

December 31, 2002 and December 31, 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Investments, at fair value		
Participant directed investments		
Stable Value fund	\$ 1,101,326	\$ 934,983
Income fund	778,827	688,265
Moderate portfolio	534,347	492,092
Stock Index fund	1,547,086	2,112,382
Growth and Income fund	1,060,886	1,398,131
Associated Estates Realty Corporation (AERC)		
Stock fund	276,820	359,604
International fund	30,027	12,908
21st Century Growth Fund	44,575	27,913
Participant notes receivable	<u>246,827</u>	<u>265,184</u>
Net assets available for plan benefits	\$ 5,620,721	\$ 6,291,462

The accompanying notes are an integral part of this statement.

The AERC 401(K) Savings Plan and Trust

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

Year ended December 31, 2002

Additions to net assets attributed to:		
Investment income		
Net depreciation in fair value of investments		\$ (692,254)
Realized loss		(343,683)
Interest and dividends		172,030
Contributions		
Employer	\$ 315,031	
Participants	1,286,859	
Transfers from other plan	<u>2,979</u>	<u>1,604,869</u>
Total additions		<u>740,962</u>
Deductions from net assets attributed to:		
Benefits paid to participants		1,410,665
Expenses paid		<u>1,038</u>
Total deductions		<u>1,411,703</u>
NET DECREASE		<u>(670,741)</u>
Net assets available for plan benefits		
Beginning of year		<u>6,291,462</u>
End of year		\$ 5,620,721

The accompanying notes are an integral part of this statement.

The AERC 401(K) Savings Plan and Trust

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the AERC 401(K) Savings Plan and Trust have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to profit-sharing trusts and in accordance with the terms of the Trust Agreement. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Investment Valuation and Income Recognition

Participant notes receivable are valued at cost, which approximates fair value. The Plan's investments are stated at fair value. Shares of registered investment companies are valued at quoted market prices, which represents the net asset value of shares held by the Plan at year end.

Purchases and sales of investments are recorded on a trade date basis. Investment income is recorded as earned and reinvested in the Plan.

2. Federal Income Taxes

The Plan has received a favorable determination letter from the Internal Revenue Service ("IRS") which classified the Plan as a qualified employee benefit plan, exempt from income taxes, under the Employee Retirement Income Security Act of 1994 ("ERISA").

3. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. Payment of Benefits

Benefits are recorded when paid.

The AERC 401(K) Savings Plan and Trust

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2002

NOTE B - DESCRIPTION OF PLAN

The following description of the AERC 401(K) Savings Plan and Trust provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The Plan is a plan of a controlled group of corporations which became effective April 1, 1990 by execution of the counterparts to the National City Bank Master Savings Plan and Trust Adoption Agreement. On July 1, 1997, an adoption agreement was executed whereby Scudder, Stevens & Clark ("Scudder") replaced National City Bank as Trustee of the Plan.

Employees are eligible to participate in the Plan with elective deferrals after six months of service provided that they have reached the age of 21. Twelve months of service is required for a participant to receive an employer matching contribution of 50% of the participant's contribution up to a maximum participant contribution of 6% of their gross wages. Effective May 1, 2002, the Plan was amended to reduce the employer matching contribution to 25% of the participant's contribution up to a maximum participant contribution of 6% of their gross wages. Participants may elect to contribute up to 15% of their gross wages and have the option of investing their accounts between eight different investment funds. Participants are immediately vested in the portion of their investment account which includes participant contributions plus actual earnings thereon. Employees hired prior to May 1, 2002 are also immediately vested in the portion of their investment account which includes employer matching contributions plus actual earnings thereon. Employees hired subsequent to May 1, 2002 are subject to a vesting schedule which provides for 100% vesting in employer matching contributions, plus actual earnings thereon after three years of service. Forfeiture of employer matching contributions are to be applied to offset the employer's obligation to make employer matching contributions for the year during which the forfeiture occurs.

On termination of service, a participant may elect to receive either a lump sum amount equal to the value of his or her account, monthly payments over a period equal to the shorter of 120 months or the life expectancy of the participant and/or his or her beneficiary, installment payments of a fixed amount to be made until the balance of the participant's account is exhausted, distribution in kind (securities issued by Associated Estates Realty Corporation only), or any reasonable combination of the foregoing or any reasonable time or manner of distribution within the above stated limitations.

The AERC 401(K) Savings Plan and Trust

NOTES TO FINANCIAL STATEMENTS (Continued)**December 31, 2002****NOTE C - INVESTMENTS**

The Plan's investments are held by Scudder. The following table presents the fair value of the investments. Investments that represent 5 percent or more of the Plan's net assets are separately identified.

<u>Market Value of Investments</u>	December 31, 2002 <u>Fair Value</u>	December 31, 2001 <u>Fair Value</u>
Investment at fair value as determined by Scudder		
Stable Value fund	\$ 1,101,326	\$ 934,983
Income fund	778,827	688,265
Moderate portfolio	534,347	492,092
Stock Index fund	1,547,086	2,112,382
Growth and Income fund	1,060,886	1,398,131
Associated Estates Realty Corporation Stock fund	* -	359,604
Other	<u>598,249</u>	<u>306,005</u>
	\$ 5,620,721	\$ 6,291,462

*Investment does not represent 5% or more of the Plan's net assets at December 31, 2002.

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During the year ended December 31, 2002, the Plan's investments (including investments bought, sold and held during the year) depreciated in value by \$692,254.

NOTE D - ACTIVITY BY FUND

The following table presents the changes in investments for the year ended December 31, 2002 by investment fund based on options available to participants.

	Stable Value <u>Fund</u>	Income <u>Fund</u>	Moderate <u>Portfolio</u>	Stock Index <u>Fund</u>	Growth & Income <u>Fund</u>	AERC Stock <u>Fund</u>	Inter- national	21st Century <u>Growth</u>	Participant Notes <u>Receivable</u>	<u>Total</u>
Net assets available for plan benefits										
as of January 1, 2002	\$ 934,983	\$ 688,265	\$ 492,092	\$ 2,112,382	\$ 1,398,131	\$ 359,604	12,908	27,913	\$ 265,184	\$6,291,462
Investment income										
Net appreciation (depreciation) in fair value of investments	-	20,002	(40,354)	(358,766)	(208,311)	(86,376)	(4,136)	(14,313)	-	(692,254)
Realized loss	-	(2,590)	(42,611)	(126,204)	(145,096)	(23,631)	(422)	(3,129)	-	(343,683)
Interest and dividends	51,575	37,661	13,692	-	9,584	40,949	292	-	18,277	172,030
Contributions										
Employer	31,262	31,833	55,739	90,510	72,666	23,585	4,106	5,330	-	315,031
Participants	145,337	133,211	243,086	359,374	276,417	91,930	15,969	21,535	-	1,286,859
Transfers from other plan	2,979	-	-	-	-	-	-	-	-	2,979
Benefits paid to participants and fund transfers	(64,229)	(129,430)	(187,153)	(530,160)	(342,398)	(129,210)	1,310	7,239	(36,634)	(1,410,665)
Expenses paid	<u>(581)</u>	<u>(125)</u>	<u>(144)</u>	<u>(50)</u>	<u>(107)</u>	<u>(31)</u>	=	=	=	<u>(1,038)</u>
Net assets available for plan benefits										
as of December 31, 2002	\$ 1,101,326	\$ 778,827	\$ 534,347	\$ 1,547,086	\$ 1,060,886	\$ 276,820	\$ 30,027	\$ 44,575	\$ 246,827	\$ 5,620,721

The AERC 401(K) Savings Plan and Trust

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2002

NOTE E - PARTICIPANT NOTES RECEIVABLE

During 2002, the Plan made loans to various employees from their respective interests in the Plan. These loans and loans made in prior years bear interest at rates varying from 5.25% to 10.5%, and are being amortized over the terms of the loans with bi-weekly payments of principal and interest. The notes have maturity dates equal to or less than five years (ten years if the loan funds are utilized to purchase a primary residence) from the date of the notes, face value equal or greater than \$1,000, and do not exceed 50 percent of the present value of the borrowers' interest in the Plan.

NOTE F - PLAN TERMINATION

Although it has not expressed any intent to do so, the companies participating in the Plan have the right to discontinue their matching contributions at any time and to terminate the Plan subject to the provisions of ERISA.

SUPPLEMENTAL INFORMATION

THE AERC 401(K) SAVINGS PLAN AND TRUST

FORM 5500 SCHEDULE H - ITEM IV(I)

SCHEDULE OF ASSETS HELD FOR INVESTMENT**DECEMBER 31, 2002**

<u>Identity of Party Involved</u>	<u>Description</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>
Scudder	Stable Value Fund	N/A	N/A	\$ 1,101,326
Scudder	Income Fund	N/A	N/A	778,827
Scudder	Pathway Moderate Portfolio	N/A	N/A	534,347
Scudder	Growth and Income Fund	N/A	N/A	1,060,886
Scudder	Stock Index Fund	N/A	N/A	1,547,086
AERC	Stock Fund	N/A	N/A	276,820
Scudder	International Fund	N/A	N/A	30,027
Scudder	21st Century Growth Fund	N/A	N/A	44,575
Participant loans	Participating loans	Various	5.25%-10.5%	246,827

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

THE AERC 401(K) SAVINGS

PLAN AND TRUST

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeffrey I. Friedman</u>	Trustee	June 30, 2003
<u>/s/ Lou Fatica</u> Lou Fatica	Trustee	June 30, 2003
<u>/s/ Nan Zieleniec</u> Nan Zieleniec	Trustee	June 30, 2003

