

**ERS STRATEGIC PROPERTIES, INC.  
AND SUBSIDIARIES**  
(A Component Unit of Northeast Ohio  
Medical University)

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**Consolidated Financial Report  
Including Supplemental Information  
June 30, 2015**





# Dave Yost • Auditor of State

Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries  
P.O. Box 96  
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the ERS Strategic Properties, Inc. and Subsidiaries, Portage County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The ERS Strategic Properties, Inc. and Subsidiaries is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

December 11, 2015

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## Independent Auditor's Report

To the Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ERS Strategic Properties, Inc. and Subsidiaries (ERS), which comprise the consolidated statement of financial position as of June 30, 2015 and 2014 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ERS Strategic Properties, Inc. and Subsidiaries as of June 30, 2015 and 2014 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.

To the Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2015 on our consideration of ERS Strategic Properties, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 ERS Strategic Properties, Inc. and Subsidiaries' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 13, 2015

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2015 and JUNE 30, 2014**

<b>ASSETS</b>	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 368,915	\$ 299,591
Accounts receivable	1,317	631,699
Receivable due from related party	169,231	-
Prepays	5,981	-
Total current assets	<u>545,444</u>	<u>931,290</u>
<b>NONCURRENT ASSETS</b>		
Property and equipment, net (Note 2)	116,583,020	107,979,290
Funds held by trustee (Note 3)	3,358,306	23,201,024
Deferred financing costs - net of accumulated amortization	<u>2,531,708</u>	<u>2,618,170</u>
Total noncurrent assets	<u>122,473,034</u>	<u>133,798,484</u>
Total assets	<u><u>\$ 123,018,478</u></u>	<u><u>\$ 134,729,774</u></u>
<b>LIABILITIES AND DEFICIENCY IN NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 23,206	\$ 23,522
Deposits	201,689	147,568
Deferred rental income	40,311	59,338
Accrued interest payable	416,801	438,272
Accrued expenses	18,210	138,032
Related party payable (Note 5)	7,376,566	6,550,875
Accrued construction costs payable	805,085	9,645,953
Bond payable - current portion (Note 4)	<u>1,585,584</u>	<u>949,874</u>
Total current liabilities	10,467,452	17,953,434
<b>NONCURRENT LIABILITIES</b>		
Bond payable - net of current portion (Note 4)	<u>117,571,784</u>	<u>119,137,561</u>
Total noncurrent liabilities	<u>117,571,784</u>	<u>119,137,561</u>
Total liabilities	128,039,236	137,090,995
DEFICIENCY IN NET ASSETS - Unrestricted	<u>(5,020,758)</u>	<u>(2,361,221)</u>
Total liabilities and deficiency in net assets	<u><u>\$ 123,018,478</u></u>	<u><u>\$ 134,729,774</u></u>

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2015 AND JUNE 30, 2014**

	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>		
Rental revenue	\$ 7,215,937	\$ 1,907,991
Other revenue	197,088	5,247
Investment income	844	360
In-kind support from Northeast Ohio Medical University	<u>343,960</u>	<u>332,188</u>
Total revenues	7,757,829	2,245,786
 <b>EXPENSES</b>		
Payroll, benefits, and taxes	438,955	422,109
Management fees	84,199	78,571
Operating and administrative	68,390	60,226
Interior unit expenses	1,283	1,139,194
Common area expenses	154,873	117,300
Building maintenance	80,696	113,089
Professional fees	277,425	434,289
Marketing and advertising	12,491	7,465
Depreciation	3,457,526	461,081
Deferred financing cost amortization	86,462	79,523
Interest expense	<u>5,755,066</u>	<u>1,612,263</u>
Total expenses	<u>10,417,366</u>	<u>4,525,110</u>
 DECREASE IN NET ASSETS	 (2,659,537)	 (2,279,324)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	<u>(2,361,221)</u>	<u>(81,897)</u>
DEFICIENCY IN NET ASSETS AT END OF YEAR	<u><u>\$(5,020,758)</u></u>	<u><u>\$ (2,361,221)</u></u>

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2015 AND JUNE 30, 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in net assets	\$ (2,659,537)	\$ (2,279,324)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	3,457,526	461,081
Amortization of deferred financing costs	86,462	79,523
Amortization of discount on bonds payable	19,807	19,807
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	630,382	(631,699)
Receivable due from related party	(169,231)	-
Prepaid expenses	(5,981)	-
Accounts payable	(316)	23,522
Accrued liabilities	(9,001,188)	(10,779,418)
Related party payables	825,691	6,550,876
Deposits held in rent	54,121	147,568
	(6,762,264)	(6,408,064)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of capital assets	(12,061,256)	(53,200,556)
Net cash used in investing activities	(12,061,256)	(53,200,556)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments made on bonds	(949,874)	-
Decrease in funds held by trustee	19,842,718	59,908,211
Net cash provided by financing activities	18,892,844	59,908,211
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>69,324</b>	<b>299,591</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>299,591</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>\$ 368,915</b>	<b>\$ 299,591</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 6,234,643	\$ 6,260,775
In-kind support	343,960	332,188

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

In 2012, ERS Strategic Properties, Inc. and Subsidiaries (ERS) was created to establish related commercial business units for the benefit and support of Northeast Ohio Medical University (NEOMED). ERS Housing LLC, ERS HWMEC LLC, ERS Bradley Rd. LLC, ERS Contiguous Properties LLC, and ERS MOB LLC were created under the umbrella of ERS Strategic Properties, Inc. and are wholly owned subsidiaries.

As defined in accounting standards, ERS is considered to be a component unit of NEOMED. Specifically, ERS Housing LLC is operated for the purpose of developing, constructing and equipping housing for students, faculty, staff and guests of NEOMED. ERS Housing's facility completed construction in 2013 and began operations in 2014. ERS HWMEC LLC provides for the development, construction and equipping of a health, wellness and medical education center to promote the educational, social and physical well-being of students, faculty, and staff of NEOMED. ERS HWMEC LLC was substantially completed during fiscal year 2015. Tenants and University staff started occupying the building in August 2014. ERS Bradley LLC and ERS Contiguous Properties LLC will provide additional land for the University's future needs. ERS MOB LLC will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations. ERS MOB LLC has not yet started construction.

ERS has sustained substantial operating losses since inception in 2012 during the development of physical plant projects described above for NEOMED. As the projects complete, the expected revenue will increase. Management believes that these actions will enable ERS to continue its operations and meet its operating and financing requirements.

**Basis of Presentation**

ERS is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards that have been codified in Accounting Standards Codification (ASC) Topic No. 958, *Not-for-Profit Entities*. Accounting standards require that resources be classified into three net asset categories according to donor-imposed restrictions. A description of each category is as follows:

- **Unrestricted Net Assets** - Unrestricted net assets are free of donor-imposed restrictions and include all revenue, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets.
- **Temporarily Restricted Net Assets** - Temporarily restricted net assets include gifts and pledges receivable for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds is not permanently restricted.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

- **Permanently Restricted Net Assets** - Permanently restricted net assets are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income from these assets is included in temporarily restricted funds until appropriated for expenditure in the accompanying consolidated statement of activities and changes in net assets.

For the years ended June 30, 2015 and 2014, ERS's deficiency in net assets was unrestricted.

**Principles of Consolidation**

The consolidated financial statements include the accounts of ERS and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

**Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting.

**Cash and Cash Equivalents**

ERS considers highly liquid instruments such as cash, certificates of deposit, and investments with a maturity of three months or less when purchased to be cash equivalents.

ERS maintains its cash in bank deposits which, at times, may exceed federally insured limits. ERS has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash.

At June 30, 2015 and 2014, funds held by trustees were \$3,358,306 and \$23,201,024, respectively. US Bank, acting as trustee for ERS Housing LLC, is responsible for holding, managing, and distributing all funds. Wells Fargo, acting as trustee for ERS HWMEC LLC, is responsible for holding, managing, and distributing all funds.

**Accounts Receivable**

Accounts receivable consists of housing or housing-related fees charged to students. All amounts are considered to be collectible as of June 30, 2015 and 2014 and, accordingly, no allowance for doubtful accounts has been recorded.

**Property and Equipment**

Property and equipment include land and buildings and improvements, and equipment with an original cost of \$2,500 or more. Such assets are recorded at cost at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation. Interest expense relating to construction is capitalized net of interest income on resources set aside for that purpose. Property and equipment include capitalized interest of \$477,547 and \$4,666,845 during the years ended June 30, 2015 and 2014, respectively.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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Depreciation of capital assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 - 40 Years
Infrastructure	7 Years
Furnishings and movable equipment	3 - 7 Years

**Impairment of Long-lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, management evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of assets exceeds the fair value of assets. The assessment of recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2015 and 2014.

**Deposits**

All tenants are required to provide one month's rent as a security deposit. Security deposits totaled \$201,689 and \$147,568 for years ended June 30, 2015 and 2014, respectively. Revenue will be recognized related to the deposits upon termination of the lease agreement.

**Deferred Financing Costs**

Deferred financing costs are amortized using the straight-line method (which approximates the effective-interest method) over the life of the related debt. Amortization expense was \$86,462 and \$79,523 for the years ended June 30, 2015 and 2014, respectively. Accumulated amortization totaled \$245,109 and \$158,648 as of June 30, 2015 and 2014, respectively.

**Income Tax**

ERS operates as a nonprofit organization and has been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. As of June 30, 2015 and 2014, there were no unrecognized tax benefits, significant penalties, or interest recognized during the year or accrued at year end. The organization files income tax returns in U.S. federal and various state jurisdictions and at year end, tax returns were open for examination for all years after 2012.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

Accounting principles generally accepted in the United States of America require management to evaluate certain tax positions taken by ERS and recognize a tax liability if ERS has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by ERS and has concluded that as of June 30, 2015 and 2014, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. ERS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**Recognition of Revenue**

Rental income is recognized on a straight-line basis over the terms of the tenant leases. Rental payments received in advance of the rental income recognition are included in deferred rental income, a liability in the accompanying consolidated statement of financial position. Other miscellaneous fees such as application fee, damage fees and lost key fees are included in other revenue in the accompanying consolidated statement of activities and changes in net assets.

**Functional Expenses**

Expenses relate to program services, management and general activities. Costs are allocated between the various programs and support services on an actual basis, where available, or based upon reasonable methods. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Expenses by functional classification for years ended June 30, 2015 and 2014 as summarized as follows:

	Year Ended June 30	
	2015	2014
Program services	\$ 9,809,207	\$3,783,243
Management and general	608,159	741,867
Total operating expenses	\$10,417,366	\$4,525,110

**Fair Value of Financial Instruments**

The fair value of financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, approximates carrying values. The fair value of the bond payable approximates the carrying value because of the market rates of the instrument. The inputs are based upon terms in contractual agreements. The fair values of these financial instruments are determined using Level 2 inputs.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Subsequent Events**

ERS evaluated the effect of subsequent events through October 13, 2015, representing the date that the consolidated financial statements were issued. No recognized subsequent events were identified for recognition or disclosure in the consolidated financial statements or the accompanying notes to the consolidated financial statements.

**Upcoming Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for ERS's year ending June 30, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. ERS has not yet determined which application method it will use or the potential effects of the new standard on the consolidated financial statements, if any.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

**2. PROPERTY AND EQUIPMENT**

Property and equipment activity for the year ended June 30, 2015 was as follows:

	July 1, 2014 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2015 Ending Balance
Land	\$ 78,469	\$ 90,880	\$ -	\$ 169,349
Infrastructure	-	4,234,451	6,083,135	10,317,586
Buildings	35,831,950	7,038,950	66,330,268	109,201,168
Furnishings and movable equipment	116,550	13,178	-	129,728
Construction in progress	72,413,402	683,797	(72,413,403)	683,796
Total Property and Equipment	108,440,371	12,061,256	-	120,501,627
Less: accumulated depreciation				
Infrastructure	-	677,869	-	677,869
Buildings	448,610	2,752,519	-	3,201,129
Furnishings and movable equipment	12,471	27,138	-	39,609
Total accumulated depreciation	461,081	3,457,526	-	3,918,607
Net Property and Equipment	<u>\$ 107,979,290</u>	<u>\$ 8,603,730</u>	<u>\$ -</u>	<u>\$ 116,583,020</u>

Property and equipment activity for the year ended June 30, 2014 was as follows:

	July 1, 2013 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2014 Ending Balance
Land	\$ -	\$ 78,469	\$ -	\$ 78,469
Buildings	-	6,676,809	29,155,141	35,831,950
Furnishings and movable equipment	-	106,174	10,376	116,550
Construction in progress	51,028,761	50,550,158	(29,165,517)	72,413,402
Total Property and Equipment	51,028,761	57,411,610	-	108,440,371
Less: accumulated depreciation				
Buildings	-	448,610	-	448,610
Furnishings and movable equipment	-	12,471	-	12,471
Total accumulated depreciation	-	461,081	-	461,081
Net Property and Equipment	<u>\$ 51,028,761</u>	<u>\$ 56,950,529</u>	<u>\$ -</u>	<u>\$ 107,979,290</u>

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

**3. FUNDS HELD BY TRUSTEE**

Funds held by trustee represent cash and cash equivalents that, under the terms of the bond agreement, are restricted for various purposes (see Note 4). These assets are being held with financial institutions (the "Trustee"). In accordance with the terms of the related agreements, the proceeds from the bonds not used to construct the student wellness center and certain equipment and improvements were deposited with the Trustee. The Trustee is then authorized, through direction from ERS, to transfer funds out of the revenue funds to other funds. Funds held by the Trustee consist of interest-bearing cash accounts.

At June 30, 2015 and 2014, fund balances held by the Trustee were as follows:

	2015	2014
<b><u>ERS HWMEC LLC</u></b>		
Bond proceeds fund	\$ 3,087,695	\$ 22,913,144
Capitalized interest fund	-	124,600
	3,087,695	23,037,744
 <b><u>ERS Housing LLC</u></b>		
Revenue fund	\$ 7,081	\$ -
Repair & Replace fund	67,802	-
Sinking fund	165,884	161,590
Surplus fund	29,844	1,690
	270,611	163,280
 Total	<b>\$ 3,358,306</b>	<b>\$ 23,201,024</b>

**4. BONDS PAYABLE**

In 2012, ERS Housing LLC worked with the Portage County Port Authority to issue tax-exempt bonds in the amount of \$36,680,000. As of June 2012, when the bonds were issued, ERS did not yet have tax-exempt status, and ERS partnered with Portage County Port Authority to issue tax-exempt bonds. The proceeds from this issuance were used for the construction of NEOMED apartments. The bonds were assumed from the Portage County Port Authority by ERS in November 2012 when ERS received its tax-exempt status. The bonds are in various denominations, with fixed interest rates of 2.0 to 5.0 percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2015 and 2014 was \$36,460,000 and \$36,680,000, respectively, and the principal payments started on December 1, 2014. Principal payments occur twice a year starting in the amount of \$110,000 and increasing until the final payment of \$1,200,000 on June 1, 2044.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

In November 2012, ERS HWMEC LLC issued a senior secured note in the amount of \$84,000,000. The proceeds from this issuance are being used for the construction of a health, wellness and medical education building. The bonds are in various denominations, with a fixed interest rate of 4.89 percent (and an additional .042 percent if NEOMED's credit rating were downgraded) and a maturity date of November 8, 2044. The balance outstanding as of June 30, 2015 and 2014 was \$83,270,126 and \$84,000,000 and the principal payments started on December 8, 2014. Principal payments occur monthly starting in the amount of \$103,000 and increasing until the final payment of \$443,493 on November 8, 2044.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$572,758 and \$592,565 as of June 30, 2015 and 2014, respectively. The discount is being amortized straight-line over the life of the bonds and is included in interest expense in the accompanying consolidated statement of activities and changes in net assets. There is no discount or premium on the ERS HWMEC LCC bonds.

For the years ended June 30, 2015 and June 30, 2014, changes in debt consisted of the following:

	July 1, 2014	Borrowed	Retired	June 30, 2015	Current
ERS Housing LLC	\$ 36,680,000	\$ -	\$ 220,000	36,460,000	\$ 285,000
ERS Housing LLC Discount	(592,565)	-	(19,807)	(572,758)	-
ERS HWMEC LLC	<u>84,000,000</u>	-	<u>729,874</u>	<u>83,270,126</u>	<u>1,300,584</u>
Total bonds and notes payable	<u>\$ 120,087,435</u>	<u>\$ -</u>	<u>\$ 930,067</u>	<u>\$ 119,157,368</u>	<u>\$ 1,585,584</u>

	July 1, 2013	Borrowed	Retired	June 30, 2014	Current
ERS Housing LLC	\$ 36,680,000	\$ -	\$ -	36,680,000	\$ 220,000
ERS Housing LLC Discount	(612,372)	-	(19,807)	(592,565)	-
ERS HWMEC LLC	<u>84,000,000</u>	-	-	<u>84,000,000</u>	<u>729,874</u>
Total bonds and notes payable	<u>\$ 120,067,628</u>	<u>\$ -</u>	<u>\$ (19,807)</u>	<u>\$ 120,087,435</u>	<u>\$ 949,874</u>

These obligations are secured by a gross pledge of and first lien on the General Receipts of NEOMED. The General Receipts include the full amount of every type and character of campus receipts, except for State appropriations and receipts previously pledged or otherwise restricted. ERS has complied with all covenants as of June 30, 2015 and 2014.

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014**

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2015 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,585,584	\$ 6,163,838	\$ 7,749,422
2017	1,725,627	6,081,894	7,807,521
2018	1,863,923	5,998,214	7,862,137
2019	2,010,635	5,908,182	7,918,817
2020	2,165,934	5,810,060	7,975,994
2021-2025	13,342,737	27,253,283	40,596,020
2026-2030	17,232,608	23,328,323	40,560,931
2031-2035	21,872,987	18,357,554	40,230,541
2036-2040	27,917,457	11,894,422	39,811,879
2041-2045	30,012,634	3,681,398	33,694,032
	<u>\$ 119,730,126</u>	<u>\$ 114,477,168</u>	<u>\$ 234,207,294</u>

**5. RELATED PARTY TRANSACTIONS**

**Expenses**

For the years ended June 30, 2015 and 2014, NEOMED made payments on behalf of ERS in the amount of \$825,691 and \$5,488,580, respectively, for expenses and capitalized items related to the company start-up and deferred financing costs. For the years ended June 30, 2015 and 2014, \$455,919 and \$2,092,352, respectively, was related to capitalized property and equipment. In addition, amounts for services provided by NEOMED which are not reimbursed by ERS are reported as in-kind contributions in the consolidated statement of activities and changes in net assets. NEOMED's in-kind support for these services was valued at \$343,960 and \$332,188 for the years ended June 30, 2015 and 2014, respectively.

**Accounts Payable**

At June 30, 2015 and 2014, ERS had accounts payable to NEOMED totaling \$7,376,566 and \$6,550,875, respectively, for construction, equipment, consulting, and legal fees which were paid by NEOMED on behalf of ERS.

**Accounts Receivable**

At June 30, 2015 and 2014, ERS had accounts receivable from NEOMED totaling \$169,231 and \$0, respectively, for leased property.

## **ADDITIONAL INFORMATION**

Independent Auditor's Report on Additional Information

To the Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries

We have audited the consolidated financial statements of ERS Strategic Properties, Inc. and Subsidiaries as of and for the years ended June 30, 2015 and 2014 and have issued our report thereon dated October 13, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Plante & Moran, PLLC*

October 13, 2015

**ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES**  
**(A Component Unit of Northeast Ohio Medical University)**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2015**

	ERS Housing LLC	ERS HWMEC LLC	ERS Bradley Rd. LLC	ERS Contiguous Properties LLC	ERS MOB LLC	Total
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 360,331	\$ 8,584	\$ -	\$ -	\$ -	\$ 368,915
Accounts receivable	1,317	-	-	-	-	1,317
Receivable due from NEOMED	-	169,231	-	-	-	169,231
Prepays	4,106	1,875	-	-	-	5,981
Total current assets	<u>365,754</u>	<u>179,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>545,444</u>
<b>NONCURRENT ASSETS</b>						
Property and equipment, net	34,564,313	81,528,584	184,585	305,538	-	116,583,020
Funds held by trustee	270,611	3,087,695	-	-	-	3,358,306
Deferred financing costs - net of accumulated amortization	1,074,068	1,457,640	-	-	-	2,531,708
Total noncurrent assets	<u>35,908,992</u>	<u>86,073,919</u>	<u>184,585</u>	<u>305,538</u>	<u>-</u>	<u>122,473,034</u>
Total assets	<u>\$ 36,274,746</u>	<u>\$ 86,253,609</u>	<u>\$ 184,585</u>	<u>\$ 305,538</u>	<u>\$ -</u>	<u>\$ 123,018,478</u>
<b>LIABILITIES AND DEFICIENCY IN NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 23,206	\$ -	\$ -	\$ -	\$ -	\$ 23,206
Deposits	201,689	-	-	-	-	201,689
Deferred rental income	40,311	-	-	-	-	40,311
Accrued interest payable	142,518	274,283	-	-	-	416,801
Accrued expenses	18,182	-	14	14	-	18,210
Related party payable	2,269,630	4,569,530	204,084	333,322	-	7,376,566
Accrued construction costs payable	-	805,085	-	-	-	805,085
Bond payable - current portion	285,000	1,300,584	-	-	-	1,585,584
Total current liabilities	<u>2,980,536</u>	<u>6,949,482</u>	<u>204,098</u>	<u>333,336</u>	<u>-</u>	<u>10,467,452</u>
<b>NONCURRENT LIABILITIES</b>						
Bond payable - net of current portion	<u>35,602,242</u>	<u>81,969,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,571,784</u>
Total noncurrent liabilities	<u>35,602,242</u>	<u>81,969,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,571,784</u>
Total liabilities	<u>38,582,778</u>	<u>88,919,024</u>	<u>204,098</u>	<u>333,336</u>	<u>-</u>	<u>128,039,236</u>
DEFICIENCY IN NET ASSETS - Unrestricted	<u>(2,308,032)</u>	<u>(2,665,415)</u>	<u>(19,513)</u>	<u>(27,798)</u>	<u>-</u>	<u>(5,020,758)</u>
Total liabilities and deficiency in net assets	<u>\$ 36,274,746</u>	<u>\$ 86,253,609</u>	<u>\$ 184,585</u>	<u>\$ 305,538</u>	<u>\$ -</u>	<u>\$ 123,018,478</u>

**ERS STRATEGIC PROPERTIES, INC.**  
**(A Component Unit of Northeast Ohio Medical University)**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2015**

	<u>ERS Housing LLC</u>	<u>ERS HWMEC LLC</u>	<u>ERS Bradley Rd. LLC</u>	<u>ERS Contiguous Properties LLC</u>	<u>ERS MOB LLC</u>	<u>Total</u>
<b>REVENUES</b>						
Rental revenue	\$ 2,717,871	\$ 4,497,259	\$ 800	\$ 7	\$ -	\$ 7,215,937
Other revenue	27,857	169,231				197,088
Investment Income	35	809	-	-	-	844
In-kind Support from Northeast Ohio Medical University	184,033	159,927	-	-	-	343,960
Total revenue	<u>2,929,796</u>	<u>4,827,226</u>	<u>800</u>	<u>7</u>	<u>-</u>	<u>7,757,829</u>
<b>EXPENSES</b>						
Payroll, benefits, and taxes	291,713	147,242	-	-	-	438,955
Management fees	84,199	-	-	-	-	84,199
Operating and administrative	35,289	33,101	-	-	-	68,390
Interior unit expenses	1,283	-	-	-	-	1,283
Common area expenses	145,541	1,011	5,959	2,362	-	154,873
Building maintenance	75,754	4,942	-	-	-	80,696
Professional fees	47,923	196,156	10,620	22,726	-	277,425
Marketing and advertising	12,491	-	-	-	-	12,491
Depreciation	924,018	2,528,035	2,756	2,717	-	3,457,526
Deferred financing cost amortization	37,037	49,425	-	-	-	86,462
Interest Expense	1,717,565	4,037,501	-	-	-	5,755,066
Total expenses	<u>3,372,813</u>	<u>6,997,413</u>	<u>19,335</u>	<u>27,805</u>	<u>-</u>	<u>10,417,366</u>
DECREASE IN NET ASSETS	(443,017)	(2,170,187)	(18,535)	(27,798)	-	(2,659,537)
NET ASSETS - BEGINNING OF YEAR	<u>(1,865,015)</u>	<u>(495,228)</u>	<u>(978)</u>	<u>-</u>	<u>-</u>	<u>(2,361,221)</u>
NET ASSETS - END OF YEAR	<u>\$ (2,308,032)</u>	<u>\$ (2,665,415)</u>	<u>\$ (19,513)</u>	<u>\$ (27,798)</u>	<u>\$ -</u>	<u>\$ (5,020,758)</u>

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

To Management and the Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries

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 consolidated financial statements of ERS Strategic Properties, Inc. and Subsidiaries (ERS), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net asstes and cash flows for the year then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated October 13, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ERS Strategic Properties, Inc. and Subsidiaries' 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 ERS' internal control. Accordingly, we do not express an opinion on the effectiveness of ERS' 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.

To Management and the Board of Directors  
ERS Strategic Properties, Inc. and Subsidiaries

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ERS Strategic Properties, Inc. and Subsidiaries' 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 ERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 13, 2015

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# Dave Yost • Auditor of State

**ERS STRATEGIC PROPERTIES, INC**

**PORTAGE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 24, 2015**