

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

**Consolidated Financial Report
Including Supplementary Information
June 30, 2017**



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, 2016 through June 30, 2017. 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

October 13, 2017

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ERS STRATEGIC PROPERTIES, INC.

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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, which comprise the consolidated statement of financial position as of June 30, 2017 and 2016 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 consolidated 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, 2017 and 2016 and the changes in their net assets and their 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 September 27, 2017 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

September 27, 2017

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	June 30	
	2017	2016 (as restated)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 477,044	\$ 349,472
Accounts receivable	14,237	16,076
Receivable due from related party (Note 5)	6,625	238,920
Prepays	13,744	8,632
Total current assets	511,650	613,100
Noncurrent assets		
Property and equipment, net (Note 2)	109,730,153	113,896,101
Funds held by trustee (Note 3)	1,936,268	1,973,033
Total noncurrent assets	111,666,421	115,869,134
Total assets	\$ 112,178,071	\$ 116,482,234
LIABILITIES AND DEFICIENCIES IN NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,224	\$ 8,492
Deposits	230,482	230,457
Deferred rental income	222,971	55,623
Accrued interest payable	406,428	411,567
Accrued expenses	29,367	34,000
Accrued construction costs payable	-	3,860
Bonds payable - current portion (Note 4)	1,863,923	1,725,627
Total current liabilities	2,754,395	2,469,626
Noncurrent liabilities		
Related party payable (Note 5)	5,972,761	6,526,117
Bonds payable - net of debt issuance costs and current portion (Note 4)	111,663,063	113,420,719
Total noncurrent liabilities	117,635,824	119,946,836
Total liabilities	120,390,219	122,416,462
Deficiency in net assets - Unrestricted	(8,212,148)	(5,934,228)
Total liabilities and deficiency in net assets	\$ 112,178,071	\$ 116,482,234

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Rental revenue, net	\$ 8,533,529	\$ 8,408,836
Other revenue	14,846	3,102
Investment income	2,278	290
Private donations	225,126	1,103,897
In-kind support from Northeast Ohio Medical University	<u>310,816</u>	<u>380,629</u>
Total revenue	<u>9,086,595</u>	<u>9,896,754</u>
Expenses		
Payroll, benefits, and taxes	461,165	500,180
Management fees	93,662	91,777
Operating and administrative	29,755	35,235
Interior unit expenses	9,673	6,271
Common area expenses	152,223	145,789
Building maintenance	129,901	137,882
Professional fees	80,985	111,914
Marketing and advertising	4,823	4,959
Loss on disposal of asset	-	217,414
Depreciation	4,219,305	3,293,930
Interest expense	<u>6,183,023</u>	<u>6,264,873</u>
Total expenses	<u>11,364,515</u>	<u>10,810,224</u>
DECREASE IN NET ASSETS	(2,277,920)	(913,470)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	<u>(5,934,228)</u>	<u>(5,020,758)</u>
DEFICIENCY IN NET ASSETS AT END OF YEAR	<u>\$ (8,212,148)</u>	<u>\$ (5,934,228)</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (2,277,920)	\$ (913,470)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	4,219,305	3,293,930
Loss on disposal of asset	-	217,414
Amortization of deferred financing costs	86,460	86,462
Amortization of discount on bonds payable	19,807	19,807
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	1,839	(14,759)
Prepaid expenses	(5,112)	(2,651)
Accounts payable	(7,268)	(14,714)
Accrued liabilities	153,716	(775,357)
Deposits held in rent	25	28,768
Net cash provided by operating expenses	2,190,852	1,925,430
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	(53,357)	(824,424)
Net cash used in investing activities	(53,357)	(824,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receivable due from related party	232,295	(69,689)
Related party payables	(553,356)	(850,449)
Payments made on bonds	(1,725,627)	(1,585,584)
Decrease in funds held by trustee	36,765	1,385,273
Net cash used in financing activities	(2,009,923)	(1,120,449)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	127,572	(19,443)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	349,472	368,915
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 477,044	\$ 349,472
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 6,168,471	\$ 6,183,645
In-kind support	310,816	380,629

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

1. 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 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 HWMEC completed construction in fiscal year 2015. Tenants and University staff started occupying the building in August 2014. ERS MOB 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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- **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 statement of activities and changes in net assets.

For the years ended June 30, 2017 and 2016, ERS's deficiency in net assets were 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, 2017 and 2016, funds held by trustees were \$1,936,268 and \$1,973,033, 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, 2017 and 2016; 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 \$5,000 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 was capitalized net of interest income on resources set aside for that purpose. There was no capitalized interest recorded to property and equipment during the years ended June 30, 2017 and 2016.

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 life of the assets as follows:

<i>Asset</i>	<i>Estimated Useful Life</i>
<i>Buildings and Improvements</i>	20-40 Years
<i>Infrastructure</i>	7 Years
<i>Furnishings and movable equipment</i>	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 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, 2017 and 2016.

Deposits

All tenants are required to provide up to one month's rent as a security deposit. Security deposits totaled \$230,482 and \$230,457 for the years ended June 30, 2017 and 2016, 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 \$86,460 for the year ended June 30, 2017. Accumulated amortization totaled \$418,031 and \$331,571 as of June 30, 2017 and 2016, respectively.

Income Tax

ERS Strategic Properties and Subsidiaries operate as a nonprofit corporation and have been determined to be exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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Recognition of Revenue

Rental income is recognized on a straight-line basis over the terms of the tenant leases (one year). Rental payments received in advance of the rental income recognition are included in deferred rental income, liability in the accompanying 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 statement of activities and changes in net assets. Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support.

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, 2017 and 2016 are summarized as follows:

	Year Ended June 30, 2017	Year Ended June 30, 2016
Program services	\$ 11,032,163	\$ 10,402,115
Management and general	<u>332,352</u>	<u>408,109</u>
Total operating expenses	<u>\$ 11,364,515</u>	<u>\$ 10,810,224</u>

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.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 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. ERS's primary revenue sources, which consist of rental income where ERS is the lessor, are not expected to be significantly impacted by the standard but a complete review of all revenue sources has not yet been completed. In addition, management is currently analyzing the disclosures that will be required with this pronouncement. The new guidance will be effective for ERS's year ending June 30, 2019.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by ERS, including required disclosures about the liquidity and availability of resources. The new standard is effective for ERS's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis.

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In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for ERS's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

Change in Accounting Principle

As of July 1, 2015, ERS adopted new guidance related to the presentation of debt issuance costs in its balance sheet. Under the new guidance, debt issuance costs are reported as a direct deduction from the carrying amount of the related debt. Previously, debt issuance costs were presented as an asset. The new presentation requirements have been applied retrospectively and amounts reported in the 2016 balance sheet have been restated, as follows:

	<u>As Previously Reported</u>	<u>As Stated</u>	<u>Net Change</u>
Assets - debt issuance costs	<u>\$ 2,445,246</u>	<u>\$ -</u>	<u>\$ (2,445,246)</u>
Liabilities - Long-term debt	<u>\$ 115,865,965</u>	<u>\$ 113,420,719</u>	<u>\$ (2,445,246)</u>

The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt and reported as a component of interest expense.

In addition, the presentation for related party payable has been moved from current to noncurrent liabilities for both 2017 and 2016 as it was determined the balance will not be repaid in 12 months. This classification represents payments being made as surplus funds become available. Payments of \$540,141 and \$926,756 were made on these liabilities in 2017 and 2016, respectively.

ERS also determined to move the related party payables from the operating section of the cash flow to the financing section for 2017 and 2016 to conform to proper presentation.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Subsequent Events

ERS evaluated the effect of subsequent events through September 27, 2017, representing the date that the consolidated financial statements were issued. No recognized subsequent events were identified for recognition or disclosure in the financial statements or the accompanying notes to the consolidated financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2017 was as follows:

	July 1, 2016 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2017 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,432,358	53,357	-	110,485,715
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	-	-	-	-
Total historical cost	121,105,369	53,357	-	121,158,726
Less: accumulated depreciation				
Infrastructure	2,037,097	1,362,718	-	3,399,815
Buildings	5,104,881	2,830,395	-	7,935,276
Furnishings and movable equipment	67,290	26,192	-	93,482
Total accumulated depreciation	7,209,268	4,219,305	-	11,428,573
Net property and equipment	<u>\$ 113,896,101</u>	<u>\$ (4,165,948)</u>	<u>\$ -</u>	<u>\$ 109,730,153</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Property and equipment activity for the year ended June 30, 2016 was as follows:

	July 1, 2015 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2016 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,317,586	59,655	-	10,377,241
Buildings	109,201,168	764,769	466,421	110,432,358
Furnishings and movable equipment	129,728	-	(3,307)	126,421
Construction in progress - Nondepreciable	683,796	-	(683,796)	-
Total historical cost	120,501,627	824,424	(220,682)	121,105,369
Less: accumulated depreciation				
Infrastructure	677,869	1,359,228	-	2,037,097
Buildings	3,201,129	1,906,470	(2,718)	5,104,881
Furnishings and movable equipment	39,609	28,232	(551)	67,290
Total accumulated depreciation	3,918,607	3,293,930	(3,269)	7,209,268
Net property and equipment	<u>\$ 116,583,020</u>	<u>\$ (2,469,506)</u>	<u>\$ (217,413)</u>	<u>\$ 113,896,101</u>

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 a large financial institution (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, 2017 and 2016, fund balances held by the Trustee were as follows:

	2017	2016
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 1,452,093	\$ 1,497,809
<u>ERS Housing LLC</u>		
Revenue fund	\$ 22,895	\$ 277,742
Repair & Replace fund	207,818	129,957
Sinking fund	176,385	61
Surplus fund	77,077	67,464
	<u>484,175</u>	<u>475,224</u>
Total	<u>\$ 1,936,268</u>	<u>\$ 1,973,033</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

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, 2017 and 2016 was \$35,815,000 and \$36,175,000, respectively, and the principal payments started on December 1, 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 when NEOMED's credit rating was downgraded) and a maturity date of November 8, 2044.

The balance outstanding as of June 30, 2017 and 2016 was \$80,603,915 and \$81,969,542, respectively, and the principal payments started on December 8, 2014.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$533,143 and \$552,950 as of June 30, 2017 and 2016, 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 bonds.

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For the years ended June 30, 2017 and 2016, changes in debt consisted of the following:

	<u>July 1, 2016</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2017</u>	<u>Current</u>
ERS Housing LLC	\$ 36,175,000	\$ -	\$ 360,000	\$ 35,815,000	\$ 430,000
ERS Housing LLC Discount	(552,950)	-	(19,807)	(533,143)	-
ERS HWMEC LLC	<u>81,969,542</u>	<u>-</u>	<u>1,365,627</u>	<u>80,603,915</u>	<u>1,433,923</u>
Total bonds and notes payable	<u>\$ 117,591,592</u>	<u>\$ -</u>	<u>\$ 1,705,820</u>	<u>\$ 115,885,772</u>	<u>\$ 1,863,923</u>
	<u>July 1, 2015</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2016</u>	<u>Current</u>
ERS Housing LLC	\$ 36,460,000	\$ -	\$ 285,000	\$ 36,175,000	\$ 360,000
ERS Housing LLC Discount	(572,757)	-	(19,807)	(552,950)	-
ERS HWMEC LLC	<u>83,270,126</u>	<u>-</u>	<u>1,300,584</u>	<u>81,969,542</u>	<u>1,365,627</u>
Total bonds and notes payable	<u>\$ 119,157,369</u>	<u>\$ -</u>	<u>\$ 1,565,777</u>	<u>\$ 117,591,592</u>	<u>\$ 1,725,627</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 Housing LLC has complied with all covenants as of June 30, 2017 and 2016. Total bonds and notes payable in the chart above are not shown net of bond financing costs of \$2,358,786 and \$2,445,246 for the years ended June 30, 2017 and 2016, respectively.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2017 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
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	2,329,998	5,703,611	8,033,609
2022	2,508,016	5,588,855	8,096,871
2023-2027	14,908,154	25,817,459	40,725,613
2028-2032	18,957,908	21,482,693	40,440,601
2033-2037	24,099,988	15,973,781	40,073,769
2038-2042	30,787,824	8,821,119	39,608,943
2043-2045	16,786,534	1,127,462	17,913,996
Total	<u>\$ 116,418,914</u>	<u>\$ 102,231,436</u>	<u>\$ 218,650,350</u>

5. RELATED PARTY TRANSACTIONS

Expenses

For the years ended June 30, 2017 and 2016, NEOMED made payments on behalf of ERS in the amount of \$42,127 and \$76,307, respectively, for expenses. Reimbursements and payments for naming rights in the amount of \$595,483 and \$923,756 were received in ERS companies during fiscal years 2017 and 2016, respectively, and used to offset current and prior year expenses paid by NEOMED. For the years ended June 30, 2017 and 2016, approximately \$14,402 and \$15,934, respectively, related to legal fees to attain property tax exemption and design tenant lease structures. Amounts for services provided by the University which are not reimbursed by ERS are reported as in-kind contributions in the consolidated statement of activities and changes in net assets. The University's in-kind support for these services was valued at \$310,816 and \$380,629 for the years ended June 30, 2017 and 2016, respectively.

Accounts Payable

At June 30, 2017 and 2016, ERS had accounts payable to NEOMED totaling \$5,972,761 and \$6,526,117, respectively, for construction, equipment, consulting, and legal fees which were paid by NEOMED on behalf of ERS.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

Accounts Receivable

At June 30, 2017 and 2016, ERS had accounts receivable from NEOMED totaling \$6,625 and \$238,920, respectively, for leased property and naming gifts.

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SUPPLEMENTARY INFORMATION

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Independent Auditor's Report on Supplemental 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 year ended June 30, 2017 and have issued our report thereon dated September 27, 2017 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 supplementary information, consisting of the consolidating statement of financial position and the consolidating statement of activities and changes in net assets, 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

September 27, 2017

ERS STRATEGIC PROPERTIES, INC.
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2017

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	Eliminating Entries	Total
ASSETS							
Current assets							
Cash and equivalents	\$ 369,046	\$ 107,998	\$ -	\$ -	\$ -	\$ -	\$ 477,044
Accounts receivable	14,237	-	-	-	-	-	14,237
Receivable due from related party	-	6,625	-	-	-	-	6,625
Prepays	13,077	667	-	-	-	-	13,744
Total current assets	396,360	115,290	-	-	-	-	511,650
Noncurrent assets							
Property and equipment, net	32,716,683	76,743,518	179,072	90,880	-	-	109,730,153
Funds held by trustee	484,175	1,452,093	-	-	-	-	1,936,268
Total noncurrent assets	33,200,858	78,195,611	179,072	90,880	-	-	111,666,421
Total assets	<u>\$ 33,597,218</u>	<u>\$ 78,310,901</u>	<u>\$ 179,072</u>	<u>\$ 90,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,178,071</u>
LIABILITIES AND DEFICIENCY IN NET ASSETS							
Current liabilities							
Accounts payable	\$ 1,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,224
Deposits	230,482	-	-	-	-	-	230,482
Deferred rental income	74,437	148,534	-	-	-	-	222,971
Accrued interest payable	140,928	265,500	-	-	-	-	406,428
Accrued expenses	19,509	9,858	-	-	-	-	29,367
Accrued construction costs payable	-	-	-	-	-	-	-
Bond payable - Current portion	430,000	1,433,923	-	-	-	-	1,863,923
Total current liabilities	896,580	1,857,815	-	-	-	-	2,754,395
Noncurrent liabilities							
Related party payable	1,995,095	3,419,453	210,352	338,228	9,633	-	5,972,761
Bond payable - net of debt issuance costs and current portion	33,851,862	77,811,201	-	-	-	-	111,663,063
Total noncurrent liabilities	35,846,957	81,230,654	210,352	338,228	9,633	-	117,635,824
Total liabilities	36,743,537	83,088,469	210,352	338,228	9,633	-	120,390,219
Deficiency in net assets - Unrestricted	(3,146,319)	(4,777,568)	(31,280)	(247,348)	(9,633)	-	(8,212,148)
Total liabilities and deficiency in net assets	<u>\$ 33,597,218</u>	<u>\$ 78,310,901</u>	<u>\$ 179,072</u>	<u>\$ 90,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,178,071</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	Eliminating Entries	Total
Revenue							
Rental revenue, net	\$ 2,933,740	\$ 5,599,789	\$ -	\$ -	\$ -	\$ -	\$ 8,533,529
Other revenue	12,971	1,875	-	-	-	-	14,846
Investment Income	627	1,651	-	-	-	-	2,278
Private donations	-	225,126	-	-	-	-	225,126
In-kind support from Northeast Ohio Medical University	161,638	149,178	-	-	-	-	310,816
Total revenue	3,108,976	5,977,619	-	-	-	-	9,086,595
Expenses							
Payroll, benefits, and taxes	320,852	140,313	-	-	-	-	461,165
Management fees	93,662	-	-	-	-	-	93,662
Operating and administrative	23,809	5,946	-	-	-	-	29,755
Interior unit expenses	9,673	-	-	-	-	-	9,673
Common area expenses	150,543	-	1,639	41	-	-	152,223
Building maintenance	126,894	3,007	-	-	-	-	129,901
Professional fees	48,914	21,444	-	994	9,633	-	80,985
Marketing and advertising	4,823	-	-	-	-	-	4,823
Loss on disposal of asset	-	-	-	-	-	-	-
Depreciation	925,992	3,290,557	2,756	-	-	-	4,219,305
Interest expense	1,753,378	4,429,645	-	-	-	-	6,183,023
Total expenses	3,458,540	7,890,912	4,395	1,035	9,633	-	11,364,515
DECREASE IN NET ASSETS	(349,564)	(1,913,293)	(4,395)	(1,035)	(9,633)	-	(2,277,920)
NET ASSETS - BEGINNING OF YEAR	(2,796,754)	(2,864,275)	(26,885)	(246,313)	-	-	(5,934,228)
NET ASSETS - END OF YEAR	\$ (3,146,318)	\$ (4,777,568)	\$ (31,280)	\$ (247,348)	\$ (9,633)	\$ -	\$ (8,212,148)

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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, 2017 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ERS's internal control. Accordingly, we do not express an opinion on the effectiveness of ERS'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 ERS'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' consolidated 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's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ERS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

September 27, 2017



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
NOVEMBER 9, 2017**