

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

**Consolidated Financial Report
Including Supplemental Information
June 30, 2014**



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, 2013 through June 30, 2014. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

November 21, 2014

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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, 2014 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.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 opinion.

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

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, 2014 and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 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's internal control over financial reporting and compliance.

Plant & Moran, PLLC

October 13, 2014

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

ASSETS	2014
CURRENT ASSETS	
Cash and cash equivalents	\$ 299,591
Accounts receivable	631,699
Total current assets	931,290
 NONCURRENT ASSETS	
Property and equipment, net (Note 2)	107,979,290
Funds held by trustee (Note 3)	23,201,024
Deferred financing costs - net of accumulated amortization	2,618,170
Total noncurrent assets	133,798,484
Total assets	\$ 134,729,774
 LIABILITIES AND DEFICIENCY IN NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 23,522
Deposits	147,568
Deferred rental income	59,338
Accrued interest payable	438,272
Related party payable (Note 5)	6,550,875
Accrued construction costs payable	9,783,985
Bonds payable - current portion (Note 4)	949,874
Total current liabilities	17,953,434
 NON-CURRENT LIABILITIES	
Bonds payable - net of current portion (Note 4)	119,137,561
Total non-current liabilities	119,137,561
Total liabilities	137,090,995
DEFICIENCY IN NET ASSETS - Unrestricted	(2,361,221)
Total liabilities and deficiency in net assets	\$ 134,729,774

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, 2014

	2014
REVENUES	
Rental revenue	\$ 1,907,991
Other revenue	5,247
Investment income	360
In-kind support from Northeast Ohio Medical University	332,188
Total revenues	2,245,786
EXPENSES	
Payroll, benefits, and taxes	422,109
Management fees	78,571
Operating and administrative	60,226
Interior unit expenses	1,139,194
Common area expenses	117,300
Building maintenance	113,089
Professional fees	434,289
Marketing and advertising	7,465
Depreciation	461,081
Deferred financing cost amortization	79,523
Interest expense	1,612,263
Total expenses	4,525,110
DECREASE IN NET ASSETS	(2,279,324)
DEFICIENCY IN NET ASSETS - BEGINNING OF YEAR	(81,897)
DEFICIENCY IN NET ASSETS - END OF YEAR	\$ (2,361,221)

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

	Year Ended June 30 2014
CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets	\$ (2,279,324)
Adjustments to reconcile decrease in net assets to cash used in operating activities:	
Depreciation	461,081
Amortization of deferred financing costs	79,523
Amortization of discount on bonds payable	19,807
Changes in operating assets and liabilities which used (provided) cash:	
Accounts receivable	(631,699)
Accounts payable	23,522
Accrued liabilities	(4,228,542)
Deposits held on rent	147,568
	(6,408,064)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(53,200,556)
Net cash used in investing activities	(53,200,556)
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in funds held by trustee	59,908,211
Net cash provided by financing activities	59,908,211
 NET INCREASE IN CASH AND CASH EQUIVALENTS	299,591
 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	-
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 299,591
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for interest	\$ 6,260,775
In kind support	\$ 332,188

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

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, 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 will provide 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 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 facility is currently being constructed and operations have not commenced. Insignificant construction has occurred at ERS MOB and operations have not commenced.

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
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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 statement of activities and changes in net assets.

For the year ended June 30, 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, 2014, funds held by trustees were \$23,201,024. 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, 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 \$4,666,845 during the year ended June 30, 2014.

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

Depreciation of capital assets is calculated on a straight-line basis over the estimated useful life of the assets as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 - 40 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, 2014.

Deposits

All tenants are required to provide one month's rent as a security deposit. Security deposits totaled \$147,568 for June 30, 2014. 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 \$79,523 for the year ended June 30, 2014.

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, 2014 and 2013, 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
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, 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 (one year). Rental payments received in advance of the rental income recognition are included in deferred rental income, a 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.

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 the year ended June 30, 2014 are summarized as follows:

	Year Ended June 30 2014
Program services	\$ 3,783,243
Management and general	741,867
Total operating expenses	\$ 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
JUNE 30, 2014

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, 2014, 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 April 2013, the FASB issued Accounting Standards Update 2013-06, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*. The standard provides guidance on how to account for contributed personnel services from an affiliate. The standard clarifies that all contributed services received from an affiliate that directly benefit the recipient not-for-profit should be recognized. The standard will be effective for annual periods beginning after June 15, 2014. ERS is currently evaluating the impact this standard will have on the consolidated financial statements when adopted, during the June 30, 2015 fiscal year.

On May 28, 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), has a goal of improving consistency of requirements, comparability of revenue recognition practices, and usefulness of disclosures. The ASU eliminates most of the existing industry-specific guidance and significantly expands revenue recognition disclosures. The required disclosure changes will include both quantitative and qualitative information about the amount, timing and uncertainty of revenue from contracts with customers, and the significant judgments used. There is limited relief offered to nonpublic companies on some of the qualitative disclosures. The standard will be effective for most institutions for the June 30, 2018 fiscal year end. The University is currently evaluating the impact this standard will have on the financial statements when adopted, during the June 30, 2018 fiscal year.

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

2. PROPERTY AND EQUIPMENT

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	\$ 51,028,761	\$ 56,950,529	\$ -	\$ 107,979,290

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.

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

At June 30, 2014, fund balances held by the Trustee were as follows:
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	2014
<u>ERS HWMEC LLC</u>	
Bond proceeds fund	\$ 22,913,144
Capitalized interest fund	124,600
	23,037,744
<u>ERS Housing LLC</u>	
Sinking fund	\$ 161,590
Surplus fund	1,690
	163,280
Total	\$ 23,201,024

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, 2014 was \$36,680,000 and the principal payments start 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 if NEOMED's credit rating were downgraded) and a maturity date of November 8, 2044. The balance outstanding as of June 30, 2014 was \$84,000,000 and the principal payments start on December 8, 2014.

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$592,565 as of June 30, 2014. The discount is being amortized straight-line over the life of the bonds and is included in interest expense in the accompanying Statement of Activities and Changes in Net Assets. There is no discount or premium on the ERS HWMEC bonds.

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

For the year ended June 30, 2014, changes in debt consisted of the following:

	<u>July 1, 2013</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2014</u>	<u>Current Principal</u>
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>-</u>	<u>-</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. NEOMED has complied with all covenants as of June 30, 2014.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2014 are summarized as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 949,874	\$ 6,035,551	\$ 6,985,425
2016	1,585,584	6,035,442	7,621,026
2017	1,725,627	6,035,148	7,760,775
2018	1,863,923	6,028,452	7,892,375
2019	2,010,635	6,020,752	8,031,387
2020-2024	12,535,849	29,852,915	42,388,764
2025-2029	16,424,986	27,877,552	44,302,538
2030-2034	20,846,267	24,794,047	45,640,314
2035-2039	26,584,055	20,867,321	47,451,376
2040-2044	33,953,662	15,840,214	49,793,876
2045	<u>2,199,538</u>	<u>26,962</u>	<u>2,226,500</u>
	<u>\$ 120,680,000</u>	<u>\$ 149,414,356</u>	<u>\$ 270,094,356</u>

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

5. RELATED PARTY TRANSACTIONS

Expenses

For the year ended June 30, 2014, NEOMED made payments on behalf of ERS in the amount of \$5,488,580 for expenses and capitalized items related to the company start-up and deferred financing costs. For the year ended June 30, 2014, approximately \$2,092,352 related to capitalized property and equipment. Amounts for such services provided by the University which are not reimbursed by ERS are reported as in-kind contributions in the Statement of Activities and Changes in Net Assets. The University's in-kind support for these services was valued at \$332,188 for the year ended June 30, 2014.

Accounts Payable

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

ADDITIONAL INFORMATION



Plante & Moran, PLLC

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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 year ended June 30, 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, 2014

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30 2014 AND 2013

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 291,841	\$ 7,750	\$ -	\$ 299,591
Accounts receivable	500,370	131,329	-	631,699
Total current assets	<u>792,211</u>	<u>139,079</u>	<u>-</u>	<u>931,290</u>
NONCURRENT ASSETS				
Property and equipment, net	35,378,546	72,413,403	187,341	107,979,290
Funds held by trustee - current portion	163,280	23,037,744	-	23,201,024
Deferred financing costs - net of accumulated amortization	1,111,105	1,507,065	-	2,618,170
Total noncurrent assets	<u>36,652,931</u>	<u>96,958,212</u>	<u>187,341</u>	<u>133,798,484</u>
Total assets	<u>\$ 37,445,142</u>	<u>\$ 97,097,291</u>	<u>\$ 187,341</u>	<u>\$ 134,729,774</u>
LIABILITIES AND DEFICIENCY IN NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 23,522	\$ -	\$ -	\$ 23,522
Deposits	147,568	-	-	147,568
Deferred rental income	58,538	-	800	59,338
Accrued interest payable	161,585	276,687	-	438,272
Related party payable	2,393,141	3,970,215	187,519	6,550,875
Accrued construction costs payable	438,368	9,345,617	-	9,783,985
Bonds payable - current portion	220,000	729,874	-	949,874
Total current liabilities	<u>3,442,722</u>	<u>14,322,393</u>	<u>188,319</u>	<u>17,953,434</u>
NON-CURRENT LIABILITIES				
Bonds payable - net of current portion	<u>35,867,435</u>	<u>83,270,126</u>	<u>-</u>	<u>119,137,561</u>
Total non-current liabilities	<u>35,867,435</u>	<u>83,270,126</u>	<u>-</u>	<u>119,137,561</u>
Total liabilities	39,310,157	97,592,519	188,319	137,090,995
DEFICIENCY IN NET ASSETS - Unrestricted	<u>(1,865,015)</u>	<u>(495,228)</u>	<u>(978)</u>	<u>(2,361,221)</u>
Total liabilities and deficiency in net assets	<u>\$ 37,445,142</u>	<u>\$ 97,097,291</u>	<u>\$ 187,341</u>	<u>\$ 134,729,774</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, 2014

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	Total
REVENUES				
Rental revenue	\$ 1,907,591	\$ -	\$ 400	\$ 1,907,991
Other revenue	5,247	-	-	5,247
Investment income	360	-	-	360
In-kind support from Northeast Ohio Medical University	170,155	162,033	-	332,188
Total revenues	2,083,353	162,033	400	2,245,786
EXPENSES				
Payroll, benefits, and taxes	260,076	162,033	-	422,109
Management fees	78,571	-	-	78,571
Operating and administrative	58,516	1,710	-	60,226
Interior unit expenses	1,139,194	-	-	1,139,194
Common area expenses	117,250	50	-	117,300
Building maintenance	113,089	-	-	113,089
Professional fees	19,612	414,677	-	434,289
Marketing and advertising	7,465	-	-	7,465
Depreciation	459,703	-	1,378	461,081
Deferred financing cost amortization	37,037	42,486	-	79,523
Interest expense	1,612,263	-	-	1,612,263
Total expenses	3,902,776	620,956	1,378	4,525,110
DECREASE IN NET ASSETS	(1,819,423)	(458,923)	(978)	(2,279,324)
DEFICIENCY IN NET ASSETS - BEGINNING OF YEAR	(45,592)	(36,305)	-	(81,897)
DEFICIENCY IN NET ASSETS - END OF YEAR	\$ (1,865,015)	\$ (495,228)	\$ (978)	\$ (2,361,221)

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 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, which comprise the consolidated statement of financial position as of June 30, 2014 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 October 13, 2014.

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 opinions 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 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-001, that we consider to be a significant deficiency.

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*.

ERS Strategic Properties, Inc.'s Response to Finding

ERS Strategic Properties, Inc. and Subsidiaries' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. ERS Strategic Properties, Inc.' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Toledo, Ohio
October 13, 2014

Reference Number	Finding
2014-001	<p data-bbox="386 478 889 514">Finding Type - Significant Deficiency</p> <p data-bbox="386 535 1437 682">Criteria - The historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use (FASB ASC 360-10-30-1). A corresponding liability should be recorded for costs incurred but not yet paid.</p> <p data-bbox="386 703 1437 850">Condition - ERS did not record retainage amounts due on construction projects in progress. As the retainage includes actual costs that have been incurred, but not paid, retainage should be capitalized as part of cost of an asset in progress at June 30, 2014.</p> <p data-bbox="386 871 1437 976">Context - During testing of fixed asset additions, it was noted that the client did not record retainage owed on constructions projects that were currently in progress.</p> <p data-bbox="386 997 1437 1144">Cause - The request for payments received from the construction contractor did not include retainage in the current amount due. As such, the University capitalized the amount requested but did not include the retainage portion in the consolidated statement of net position at June 30, 2014.</p> <p data-bbox="386 1165 1437 1228">Effect - Capital assets and retainage liabilities were understated by approximately \$3,774,000 at June 30, 2014.</p> <p data-bbox="386 1249 1437 1354">Recommendation - For all construction projects, we recommend that the client monitor and record retainage for any of these projects still in progress as of year end.</p> <p data-bbox="386 1375 1437 1671">Views of Responsible Officials and Planned Corrective Actions - Management viewed the retainage as the economic incentive for the contractor to finalize the project and address all details and did not consider the funds earned by the contractor until all outstanding work was complete and any possible deficiencies were cured. As a result, management did not record the construction retainage as a capital asset and corresponding accounts payable. Once management was made aware of the recording requirement, the entry was posted and reflected in the consolidated financial statements.</p>

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Dave Yost • Auditor of State

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES

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 4, 2014**