

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

**Consolidated Financial Report
with Additional Information
June 30, 2020**



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Board of Directors
ERS Strategic Properties, Inc. and Subsidiaries
4209 State Route 44
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, 2019 through June 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 23, 2020

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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 (ERS), which comprise the consolidated statement of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, 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 opinion.

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, 2020 and 2019 and the changes in their financial position, functional expenses, and 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 7, 2020 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 7, 2020

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	June 30	
ASSETS	2020	2019
Current assets		
Cash and cash equivalents	\$ 1,056,470	\$ 400,231
Accounts receivable	41,657	10,647
Prepays	4,689	2,941
Total current assets	1,102,816	413,819
Noncurrent assets		
Property and equipment, net (Note 3)	118,822,452	104,088,266
Funds held by trustee (Note 4)	1,623,322	2,132,210
Total noncurrent assets	120,445,774	106,220,476
Total assets	\$ 121,548,590	\$ 106,634,295
LIABILITIES AND DEFICIENCIES IN NET ASSETS		
Current Liabilities		
Accounts payable	\$ -	\$ 18,500
Deposits	232,958	233,688
Unearned rental income	607,315	482,738
Accrued interest payable	388,004	394,735
Accrued liabilities	67,629	26,079
Accrued construction costs payable	1,197,174	-
Related party payable (Note 6)	356,448	74,343
Bond payable - current portion (Note 5)	2,329,998	2,165,934
Total current liabilities	5,179,526	3,396,017
Noncurrent liabilities		
Related party payable (Note 6)	14,198,951	6,929,939
Unearned rental income (Note 6)	11,465,426	1,410,259
Bonds payable - net of debt issuance costs and current portion (Note 5)	105,475,303	107,699,031
Total noncurrent liabilities	131,139,680	116,039,229
Total liabilities	136,319,206	119,435,246
Deficiency in net assets - w/o donor restrictions	(14,770,616)	(12,800,951)
Total liabilities and deficiency in net assets	\$ 121,548,590	\$ 106,634,295

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, 2020 AND 2019

	2020	2019
Revenue		
Rental revenue, net	\$ 8,734,763	\$ 8,585,544
Other revenue	23,009	22,260
Investment income	28,410	43,512
Private donations	648,526	104,000
In-kind support from Northeast Ohio Medical University	307,068	318,551
Total revenue	9,741,776	9,073,867
Expenses		
Payroll, benefits, and taxes	474,089	466,871
Management fees	102,347	99,366
Operating and administrative	28,711	27,071
Interior unit expenses	36,442	499
Common area expenses	204,793	171,407
Building maintenance	224,720	169,423
Professional fees	516,087	127,944
Marketing and advertising	3,680	4,308
Depreciation	4,210,974	4,206,030
Interest expense	5,909,598	6,008,333
Total expenses	11,711,441	11,281,252
DECREASE IN NET ASSETS W/O DONOR RESTRICTIONS	(1,969,665)	(2,207,385)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(12,800,951)	(10,593,566)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (14,770,616)	\$ (12,800,951)

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 184,116	\$ 289,973	\$ -	\$ 474,089
Management fees	102,347	-	-	102,347
Operating and administrative	4,295	24,416	-	28,711
Interior unit expenses	4,384	32,058	-	36,442
Common area expenses	196,909	7,884	-	204,793
Building maintenance	221,470	3,250	-	224,720
Professional fees	48,069	468,018	-	516,087
Marketing and advertising	-	3,680	-	3,680
Depreciation	4,210,974	-	-	4,210,974
Interest expense	5,909,598	-	-	5,909,598
	<u>\$ 10,882,162</u>	<u>\$ 829,279</u>	<u>\$ -</u>	<u>\$ 11,711,441</u>

	2019			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 168,106	\$ 298,765	\$ -	\$ 466,871
Management fees	99,366	-	-	99,366
Operating and administrative	4,138	22,933	-	27,071
Interior unit expenses	499	-	-	499
Common area expenses	168,600	2,807	-	171,407
Building maintenance	169,423	-	-	169,423
Professional fees	95,119	32,825	-	127,944
Marketing and advertising	-	4,308	-	4,308
Depreciation	4,206,030	-	-	4,206,030
Interest expense	6,008,333	-	-	6,008,333
	<u>\$ 10,919,614</u>	<u>\$ 361,638</u>	<u>\$ -</u>	<u>\$ 11,281,252</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (1,969,665)	\$ (2,207,385)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation	4,210,974	4,206,030
Amortization of deferred financing costs	86,462	86,462
Amortization of discount on bonds payable	19,808	19,806
Biomed funding restricted for construction of Medical Office Building (Note 6)	(10,055,167)	(1,410,259)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(31,010)	11,855
Prepaid expenses and deferred charges	(1,748)	2,048
Accounts payable	(18,500)	6,385
Accrued liabilities	10,214,563	1,542,364
Deposits held in rent	(730)	13,470
	2,454,987	2,270,775
Net cash provided by operating expenses		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	(18,945,160)	(2,747,481)
Net cash used in investing activities	(18,945,160)	(2,747,481)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Related party payables	8,748,291	1,148,987
Biomed funding for construction of Medical Office Building (Note 6)	10,055,167	1,410,259
Payments made on bonds	(2,165,934)	(2,010,635)
Decrease in funds held by trustee	508,888	(225,998)
Net cash provided by financing activities	17,146,412	322,613
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	656,239	(154,093)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	400,231	554,324
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 1,056,470	\$ 400,231
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	5,916,329	5,908,182
In-kind support	307,068	318,551

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

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, ERS MOB LLC and ERS RGE, 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 completed construction in fiscal year 2015. Tenants and University staff started occupying the building in August 2014. ERS Contiguous Properties, LLC will provide additional land for the University's future needs. ERS MOB, LLC was formed in 2012 and will be a medical office building for community physicians to give care to patients and be a resource for student clinical rotations as well as being the location of BioMed (an unrelated year-round public STEM+M school) which will expand to grades 7 – 12 from the current 9 - 12. Construction for ERS MOB began in spring 2019 and is expected to be completed in the fall of 2020. ERS RGE, LLC was formed in 2020 to establish additional research space for outside tenants and construction began in spring of 2020 with expected completion in December 2020. NEOMED provides substantial financial support to ERS, as the primary purpose of ERS is to provide the University students, faculty, staff and guests with resources that support on-site living arrangements, educational and social well-being, and opportunities for convenient medical resources.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. These recommendations have resulted in mandates from federal and state authorities which resulted in the temporary shifting of University classes to online rather than in person. ERS Housing, LLC remained open and still was able to maintain a higher average tenancy level (315 vs 303) in fiscal year 2020 than in fiscal year 2019. Tenancy for the fiscal year 2021 school year is expected to remain stable and comparable to fiscal year 2020. The other ERS companies were largely removed from any pandemic-related impacts: ERS HWMEC, LLC has NEOMED as its only tenant; there were no changes to the lease, and none expected in the future as a result. New construction continued for ERS MOB, LLC, and improvements for ERS RGE, LLC and ERS HWMEC, LLC. ERS Contiguous, LLC properties were not impacted

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

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revenue will increase. With the additional tenants expected in ERS MOB and ERS RGE, management believes that these actions will enable ERS to continue its operations and meet its operating and financing requirements.

Basis of Presentation

Accounting standards require that resources be classified into two net asset categories according to donor-imposed restrictions. A description of each category is as follows:

Net Assets Without Donor Restrictions – Net assets that are free of donor-imposed restrictions and include all revenue, expenses, gains, and losses that are not changes in donor restricted net assets. Net assets in this category may be expended for any purpose in performing the primary objective of ERS.

Net Assets With Donor Restrictions– Restricted net assets include gifts and pledges receivable for which donor-imposed restrictions have not been met. The income from these assets is included in donor restricted funds until appropriated for expenditure in the accompanying statement of activities and changes in net assets.

For the years ended June 30, 2020 and 2019, ERS's deficiency in net assets was without donor restrictions.

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, 2020 and 2019 funds held by trustees were \$1,623,322 and \$2,132,210, respectively. US Bank, acting as trustee for ERS Housing, LLC, is responsible for holding, managing, and

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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, 2020 and 2019; 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, 2020 and 2019.

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

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estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2020 and 2019.

Deposits

All tenants are required to provide up to one month's rent as a security deposit. Security deposits totaled \$232,958 and \$233,688 for years ended June 30, 2020 and 2019, 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 for each of the years ended June 30, 2020 and 2019, respectively. Accumulated amortization totaled \$677,417 and \$590,955 as of June 30, 2020 and 2019, respectively.

Accrued Construction Costs Payable

Included in accrued construction costs payable at June 30, 2020 and 2019 is \$1,197,174 and \$0, respectively, of construction costs incurred in advance of payment.

Income Tax

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

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 unearned 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 support without donor restrictions.

Functional Expenses

Costs of providing the program and support services have been reported on a functional basis in the ERS Strategic Properties Statement of Functional Expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently

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applied. Salaries and related expenses are allocated on the basis of function. Expenses deemed to be indirect to program services, such as some professional services, marketing, and supplies, are considered to be management and general expenses. Other expenses utilized by program services, such as occupancy, maintenance, and depreciation are allocated on the basis of function. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Fair Value of Financial Instruments

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Level 1 - Uses unadjusted quoted prices that are available in active markets for identical assets as of the reporting date. Active markets are those in which transactions for the asset occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Uses inputs other than Level 1 inputs that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets in active markets and quoted prices in markets that are not active. Level 2 also includes assets that are valued using models or other pricing methodologies that do not require significant judgment since input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data.

Level 3 - Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models and fund manager statements for which assumptions utilize management's estimates of market participant assumptions.

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.

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.

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Upcoming Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-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 based on the issuance of ASU 2020-05, and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. Management is still evaluating which method it will apply. The new lease standard is expected to not have a significant effect on ERS's financial statements. Upon adoption, ERS will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard. The ASU did not significantly change the accounting requirements for lessors and, accordingly, application of the new lease accounting standard is not expected to have a significant effect on ERS's financial statements.

Reclassifications

\$1,410,259 was reclassified on the June 30, 2019 Statement of Cash Flows from cash flows from operating activities to cash flows from financing activities to conform to June 30, 2020 presentation. There was no change to the cash position, the Statement of Financial Position or the Statement of Changes in Net Assets related to this reclassification.

Subsequent Events

ERS evaluated the effect of subsequent events through October 7, 2020, 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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. AVAILABILITY AND LIQUIDITY

ERS's financial assets available for general expenditure are as follows:

	2020	2019
Cash and cash equivalents	\$ 1,056,470	\$ 400,231
Accounts receivable	41,657	10,647
	\$ 1,098,127	\$ 410,878

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The receivables are expected to be collected within one year. ERS has a goal to maintain financial assets, which consists of cash and cash equivalents, on hand to meet 60 days of normal operating expenses, which were on average \$1,951,000 during fiscal year 2020 and \$1,878,000 during fiscal year 2019. ERS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 6, ERS also has a relationship with NEOMED, whereby it receives rental revenue in the amount of approximately \$5,700,000 annually for the years ended June 30, 2020 and 2019. ERS Housing also maintains a tenant base under lease which generated over \$261,000 and \$249,000 in rental revenues each month in fiscal years 2020 and 2019, respectively.

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3. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2020 was as follows:

	July 1, 2019 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2020 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ 104,273	\$ -	\$ 273,622
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,519,635	817,587	11,497	111,348,719
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	2,747,481	18,023,300	(11,497)	20,759,284
Total historical cost	<u>123,940,127</u>	<u>18,945,160</u>	<u>-</u>	<u>142,885,287</u>
Less: accumulated depreciation				
Infrastructure	6,125,251	1,362,717	-	7,487,968
Buildings	13,600,190	2,848,257	-	16,448,447
Furnishings and movable equipment	126,420	-	-	126,420
Total accumulated depreciation	<u>19,851,861</u>	<u>4,210,974</u>	<u>-</u>	<u>24,062,835</u>
Net property and equipment	<u>\$ 104,088,266</u>	<u>\$ 14,734,186</u>	<u>\$ -</u>	<u>\$ 118,822,452</u>

Property and equipment activity for the year ended June 30, 2019 was as follows:

	July 1, 2018 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2019 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,519,635	-	-	110,519,635
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	-	2,747,481	-	2,747,481
Total historical cost	<u>121,192,646</u>	<u>2,747,481</u>	<u>-</u>	<u>123,940,127</u>
Less: accumulated depreciation				
Infrastructure	4,762,533	1,362,718	-	6,125,251
Buildings	10,767,309	2,832,881	-	13,600,190
Furnishings and movable equipment	115,989	10,431	-	126,420
Total accumulated depreciation	<u>15,645,831</u>	<u>4,206,030</u>	<u>-</u>	<u>19,851,861</u>
Net property and equipment	<u>\$ 105,546,815</u>	<u>\$ (1,458,549)</u>	<u>\$ -</u>	<u>\$ 104,088,266</u>

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Construction in progress consists of construction costs related to the Medical Office Building and RGE renovation in 2020. ERS expects to spend an additional \$1.9M (in conjunction with contributions from NEOMED and BioMed of \$190K and \$915K, respectively) to place the Medical Office Building into service in Fall of 2020. Additionally, ERS anticipates spending an additional \$3M to complete the RGE renovation by December 2020.

4. 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 5). 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, 2020 and 2019, fund balances held by the Trustee were as follows:

	2020	2019
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 832,793	\$ 1,490,666
 <u>ERS Housing LLC</u>		
Revenue fund	\$ 10,685	\$ 18,218
Repair & Replace fund	377,526	331,004
Sinking fund	208,641	199,036
Surplus fund	193,677	93,286
Subtotal ERS Housing LLC	\$ 790,529	\$ 641,544
 Total	 \$ 1,623,322	 \$ 2,132,210

5. 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-

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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, 2020 and 2019 was \$34,295,000 and \$34,880,000, 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 were 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 in 2013) and a maturity date of November 8, 2044.

The balance outstanding as of June 30, 2020 and 2019 was \$76,083,423 and \$77,664,357, 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 \$473,722 and \$493,530 as of June 30, 2020 and 2019, 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.

For the year ended June 30, 2020 and June 30, 2019, changes in debt consisted of the following:

	<u>July 1, 2019</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2020</u>	<u>Current</u>
ERS Housing LLC	\$ 34,880,000	\$ -	\$ 585,000	\$ 34,295,000	\$ 670,000
ERS Housing LLC Discount	(493,530)	-	(19,808)	(473,722)	-
ERS HWMEC LLC	<u>77,664,357</u>	<u>-</u>	<u>1,580,934</u>	<u>76,083,423</u>	<u>1,659,998</u>
Total bonds and notes payable	<u>\$ 112,050,827</u>	<u>\$ -</u>	<u>\$ 2,146,126</u>	<u>\$ 109,904,701</u>	<u>\$ 2,329,998</u>
	<u>July 1, 2018</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2019</u>	<u>Current</u>
ERS Housing LLC	\$ 35,385,000	\$ -	\$ 505,000	\$ 34,880,000	\$ 585,000
ERS Housing LLC Discount	(513,336)	-	(19,806)	(493,530)	-
ERS HWMEC LLC	<u>79,169,992</u>	<u>-</u>	<u>1,505,635</u>	<u>77,664,357</u>	<u>1,580,934</u>
Total bonds and notes payable	<u>\$ 114,041,656</u>	<u>\$ -</u>	<u>\$ 1,990,829</u>	<u>\$ 112,050,827</u>	<u>\$ 2,165,934</u>

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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, 2020 and 2019. Total bonds and notes payable in the chart above are not shown net of bond financing costs of \$2,099,400 and \$2,185,862 for the years ended June 30, 2020 and 2019, respectively.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2020 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2021	2,329,998	5,703,611	8,033,609
2022	2,508,016	5,588,855	8,096,871
2023	2,700,186	5,465,359	8,165,545
2024	2,831,715	5,323,696	8,155,411
2025	2,972,822	5,171,762	8,144,584
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>\$ 110,378,423</u>	<u>\$ 84,514,980</u>	<u>\$ 194,893,403</u>

6. RELATED PARTY TRANSACTIONS

Revenues

For the years ended June 30, 2020 and 2019, NEOMED made payments to ERS HWMEC in the amount of \$5,733,331 and \$5,741,030, respectively, for the lease of the Wellness center.

Expenses

For the years ended June 30, 2020 and 2019, NEOMED made payments on behalf of ERS in the amount of \$88,818 and \$118,150, respectively, for expenses. Reimbursements and payments for naming rights in the amount of \$709,553 and \$294,889 were received in ERS companies during fiscal years 2020 and 2019, respectively, and are used to offset current and prior year expenses paid by NEOMED. For the years ended June 30, 2020 and 2019, \$42,322 and \$15,562, respectively, related to legal fees relating to MOB and RGE construction and Contiguous property acquisition. 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

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YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

changes in net assets. The University's in-kind support for these services was valued at \$307,068 and \$318,551 for the years ended June 30, 2020 and 2019, respectively. Additional support for the MOB building construction in the amount of \$10,055,167 was received from BioMed for the year ended June 30, 2020 as compared to \$1,410,259 in the year ended June 30, 2019 and recorded in unearned revenue.

Related Party Payable

At June 30, 2020 and 2019, ERS had amounts due to NEOMED totaling \$14,555,399 and \$7,004,282, respectively, for construction, equipment, consulting, and legal fees which were paid by NEOMED on behalf of ERS.

Medical Office Building

The Medical Office Building is currently being constructed on NEOMED's campus with an estimated completion date of fall 2020. The Ohio Facilities Commission (OFCC) entered into an agreement with the BioMed Science Academy STEM School (BioMed), which is a related party to NEOMED, to financially contribute \$12,380,192 for a portion of the building. BioMed was previously managed by NEOMED but is a separate not-for-profit entity and is not a component unit of NEOMED. The remainder of the building has been allocated for NEOMED/ERS usage, but the entire property will be owned by ERS. In exchange for the assistance with financing a portion of the building, BioMed will occupy a portion of the building for 25 years rent free. As such, BioMed's contribution is being recorded as unearned rental income which will be recognized as revenue over the 25-year period once the lease commences. As such, the contribution is being recorded as unearned rental income which will be recognized as revenue over the 25-year period. ERS has recorded \$11,465,426 and \$1,410,259 in unearned rental income as of June 30, 2020 and 2019, respectively. In addition to the OFCC funding mentioned above, the remaining funding of the building will be in part from NEOMED reserves, amounting to \$2,575,430, of which \$2,352,740 has been spent as of June 30, 2020, and temporary financing of \$7,723,200 by ERS, of which \$5,711,962 has been spent. No debt has been issued related to this project as of June 30, 2020.

ADDITIONAL INFORMATION

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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, 2020 and have issued our report thereon dated October 7, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2020 consolidated financial statements as a whole. The additional information, consisting of the consolidating statements of financial position and 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 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 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 2020 consolidated financial statements as a whole.

Plante & Moran, PLLC

October 7, 2020

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ERS STRATEGIC PROPERTIES, INC.
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	ERS RGE, LLC	Eliminating Entries	Total
ASSETS								
Current assets								
Cash and equivalents	\$ 378,617	\$ 677,853	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,056,470
Accounts receivable	41,657	-	-	-	-	-	-	41,657
Prepays	3,294	667	-	-	728	-	-	4,689
Total current assets	423,568	678,520	-	-	728	-	-	1,102,816
Noncurrent assets								
Property and equipment, net	30,047,096	67,371,766	647,545	-	19,797,200	958,845	-	118,822,452
Funds held by trustee	790,529	832,793	-	-	-	-	-	1,623,322
Total noncurrent assets	30,837,625	68,204,559	647,545	-	19,797,200	958,845	-	120,445,774
Total assets	\$ 31,261,193	\$ 68,883,079	\$ 647,545	\$ -	\$ 19,797,928	\$ 958,845	\$ -	\$ 121,548,590
LIABILITIES AND DEFICIENCY IN NET ASSETS								
Current liabilities								
Deposits	232,958	-	-	-	-	-	-	232,958
Unearned rental income	35,424	571,891	-	-	-	-	-	607,315
Accrued interest payable	137,394	250,610	-	-	-	-	-	388,004
Accrued liabilities	45,248	-	-	-	-	22,381	-	67,629
Accrued construction costs payable	-	-	-	-	1,197,174	-	-	1,197,174
Related party payable	36,519	319,929	-	-	-	-	-	356,448
Bond payable - Current portion	670,000	1,659,998	-	-	-	-	-	2,329,998
Total current liabilities	1,157,543	2,802,428	-	-	1,197,174	22,381	-	5,179,526
Noncurrent liabilities								
Related party payable	1,889,807	3,162,981	956,672	79,122	7,166,241	944,128	-	14,198,951
Unearned rental income	-	-	-	-	11,465,426	-	-	11,465,426
Bond payable - net of debt issuance costs and current portion	32,262,394	73,212,909	-	-	-	-	-	105,475,303
Total noncurrent liabilities	34,152,201	76,375,890	956,672	79,122	18,631,667	944,128	-	131,139,680
Total liabilities	35,309,744	79,178,318	956,672	79,122	19,828,841	966,509	-	136,319,206
Deficiency in net assets - w/o donor restrictions	(4,048,551)	(10,295,239)	(309,127)	(79,122)	(30,913)	(7,664)	-	(14,770,616)
Total liabilities and deficiency in net assets	\$ 31,261,193	\$ 68,883,079	\$ 647,545	\$ -	\$ 19,797,928	\$ 958,845	\$ -	\$ 121,548,590

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, 2020

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	ERS RGE, LLC	Eliminating Entries	Total
Revenue								
Rental revenue	\$ 3,134,974	\$ 5,599,789	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,734,763
Other revenue	14,909	8,100	-	-	-	-	-	23,009
Investment Income	11,512	16,898	-	-	-	-	-	28,410
Private donations	-	648,526	-	-	-	-	-	648,526
In-kind Support from Northeast Ohio Medical University	156,644	150,424	-	-	-	-	-	307,068
Total revenue	3,318,039	6,423,737	-	-	-	-	-	9,741,776
Expenses								
Payroll, benefits, and taxes	330,992	143,097	-	-	-	-	-	474,089
Management fees	102,347	-	-	-	-	-	-	102,347
Operating and administrative	25,161	3,200	-	-	350	-	-	28,711
Interior unit expenses	2,591	1,793	-	-	27,081	4,977	-	36,442
Common area expenses	196,909	-	7,161	-	723	-	-	204,793
Building maintenance	147,432	74,039	-	-	562	2,687	-	224,720
Professional fees	46,976	423,364	4,568	38,982	2,197	-	-	516,087
Marketing and advertising	3,680	-	-	-	-	-	-	3,680
Depreciation	902,343	3,302,310	6,321	-	-	-	-	4,210,974
Interest expense	1,717,983	4,191,615	-	-	-	-	-	5,909,598
Total expenses	3,476,414	8,139,418	18,050	38,982	30,913	7,664	-	11,711,441
DECREASE IN NET ASSETS W/O DONOR RESTRICTIONS	(158,375)	(1,715,681)	(18,050)	(38,982)	(30,913)	(7,664)	-	(1,969,665)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(3,890,176)	(8,579,558)	(291,077)	(40,140)	-	-	-	(12,800,951)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (4,048,551)	\$ (10,295,239)	\$ (309,127)	\$ (79,122)	\$ (30,913)	\$ (7,664)	\$ -	\$ (14,770,616)

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 (ERS), which comprise the consolidated balance sheet as of June 30, 2020 and the related consolidated statements of activities and changes in net assets, functional expenses, 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 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ERS' 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' 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 ERS' consolidated 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ERS' 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 consolidated 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*.

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

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 7, 2020

OHIO AUDITOR OF STATE KEITH FABER



ERS STRATEGIC PROPERTIES, INC.

PORTAGE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 11/5/2020

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

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