

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

**Consolidated Financial Report
with Additional Information
June 30, 2019**

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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, 2018 through June 30, 2019. 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

November 5, 2019

This page intentionally left blank.

ERS STRATEGIC PROPERTIES, INC.

Contents

Report Letter	1-2
Consolidated Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-17
Additional Information	18
Independent Auditor's Report on Supplemental Information	19
Consolidating Statement of Financial Position	20
Consolidating Statement of Activities and Changes in Net Assets	21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22-23
Schedule of Findings and Questioned Costs	24

This page intentionally left blank.

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, 2019 and 2018 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 opinions.

Opinions

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, 2019 and 2018 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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, ERS adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019, applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

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 3, 2019 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 3, 2019

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	June 30	
	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 400,231	\$ 554,324
Accounts receivable	10,647	22,502
Prepays	2,941	4,989
Total current assets	<u>413,819</u>	<u>581,815</u>
Noncurrent assets		
Property and equipment, net (Note 3)	104,088,266	105,546,815
Funds held by trustee (Note 4)	<u>2,132,210</u>	<u>1,906,212</u>
Total noncurrent assets	<u>106,220,476</u>	<u>107,453,027</u>
Total assets	<u>\$ 106,634,295</u>	<u>\$ 108,034,842</u>
LIABILITIES AND DEFICIENCIES IN NET ASSETS		
Current Liabilities		
Accounts payable	18,500	12,115
Deposits	233,688	220,218
Deferred rental income	482,738	355,954
Accrued interest payable	394,735	400,853
Accrued liabilities	26,079	14,641
Related party payable (Note 6)	74,343	-
Bond payable - current portion (Note 5)	<u>2,165,934</u>	<u>2,010,635</u>
Total current liabilities	<u>3,396,017</u>	<u>3,014,416</u>
Noncurrent liabilities		
Related party payable (Note 6)	6,929,939	5,855,295
Deferred rental income (Note 6)	1,410,259	-
Bonds payable - net of debt issuance costs and current portion (Note 5)	<u>107,699,031</u>	<u>109,758,697</u>
Total noncurrent liabilities	<u>116,039,229</u>	<u>115,613,992</u>
Total liabilities	<u>119,435,246</u>	<u>118,628,408</u>
Deficiency in net assets - w/o donor restrictions	<u>(12,800,951)</u>	<u>(10,593,566)</u>
Total liabilities and deficiency in net assets	<u>\$ 106,634,295</u>	<u>\$ 108,034,842</u>

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, 2019 AND 2018

	2019	2018
Revenue		
Rental revenue, net	\$ 8,585,544	\$ 8,407,712
Other revenue	22,260	8,113
Investment income	43,512	18,462
Private donations	104,000	149,100
In-kind support from Northeast Ohio Medical University	318,551	317,916
Total revenue	9,073,867	8,901,303
Expenses		
Payroll, benefits, and taxes	466,871	476,333
Management fees	99,366	96,472
Operating and administrative	27,071	24,128
Interior unit expenses	499	197
Common area expenses	171,407	159,698
Building maintenance	169,423	101,632
Professional fees	127,944	103,813
Marketing and advertising	4,308	4,282
Depreciation	4,206,030	4,217,258
Interest expense	6,008,333	6,098,908
Total expenses	11,281,252	11,282,721
DECREASE IN NET ASSETS W/O DONOR RESTRICTIONS	(2,207,385)	(2,381,418)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(10,593,566)	(8,212,148)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (12,800,951)	\$ (10,593,566)

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	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
Total Expenses	\$ 10,919,614	\$ 361,638	\$ -	\$ 11,281,252

	2018			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 173,411	\$ 302,922	\$ -	\$ 476,333
Management fees	96,472	-	-	96,472
Operating and administrative	4,365	19,763	-	24,128
Interior unit expenses	197	-	-	197
Common area expenses	157,568	2,130	-	159,698
Building maintenance	101,632	-	-	101,632
Professional fees	58,114	45,699	-	103,813
Marketing and advertising	-	4,282	-	4,282
Depreciation	4,217,258	-	-	4,217,258
Interest expense	6,098,908	-	-	6,098,908
Total Expenses	\$ 10,907,925	\$ 374,796	\$ -	\$ 11,282,721

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (2,207,385)	\$ (2,381,418)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation	4,206,030	4,217,258
Amortization of deferred financing costs	86,462	86,462
Amortization of discount on bonds payable	19,806	19,807
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	11,855	(8,265)
Prepaid expenses and deferred charges	2,048	8,755
Accounts payable	6,385	10,891
Accrued liabilities	1,542,364	112,682
Deposits held in rent	13,470	(10,264)
Net cash provided by operating expenses	3,681,034	2,055,908
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	(2,747,481)	(33,920)
Net cash used in investing activities	(2,747,481)	(33,920)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Receivable due from related party	-	6,625
Related party payables	1,148,987	(117,466)
Payments made on bonds	(2,010,635)	(1,863,923)
Decrease in funds held by trustee	(225,998)	30,056
Net cash used in financing activities	(1,087,646)	(1,944,708)
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (154,093)	 77,280
 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	 554,324	 477,044
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	 \$ 400,231	 \$ 554,324
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	 400,231	 554,324
Cash paid during the year for interest	5,908,182	6,012,446
In-kind support	318,551	317,916

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

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 HWMEC completed construction in fiscal year 2015. Tenants and University staff started occupying the building in August 2014. ERS Bradley, LLC and ERS Contiguous Properties, LLC will provide additional land for the University's future needs. ERS MOB, LLC 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, 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 summer of 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.

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. With the additional tenants expected in ERS MOB, 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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

- **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, 2019 and 2018, 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, 2019 and 2018 funds held by trustees were \$2,132,210 and \$1,906,212, 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, 2019 and 2018; 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, 2019 and 2018.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

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, 2019 and 2018.

Deposits

All tenants are required to provide up to one month's rent as a security deposit. Security deposits totaled \$233,688 and \$220,218 for years ended June 30, 2019 and 2018, 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, 2019 and 2018, respectively. Accumulated amortization totaled \$590,955 and \$504,493 as of June 30, 2019 and 2018, respectively.

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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

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 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 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

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.

Change in Accounting Principle

NFP Financial Reporting ASU 2016-14

As of June 30, 2019, ERS adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by ERS, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard did not result in a restatement of prior year net asset amounts. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated, as follows: Management and general expenses has increased \$53,050 from the amount previously reported, with a corresponding decrease in program expenses.

Contribution Revenue ASU 2018-08

As of June 30, 2019, ERS adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. ERS adopted the new standard on a modified prospective basis and it impacted the recognition of certain contribution and grant agreements. Government grants now meet the criteria of a nonreciprocal (contribution) transaction, typically with conditions to be met before revenue is recognized. The standard did not require a restatement of prior year amounts.

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, 2020 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

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

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.

Subsequent Events

ERS evaluated the effect of subsequent events through October 3, 2019, 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. AVAILABILITY AND LIQUIDITY

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 400,231	\$ 554,324
Accounts and interest receivable	<u>10,647</u>	<u>22,502</u>
	<u>\$ 410,878</u>	<u>\$ 576,826</u>

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 are on average approximately \$1,880,375. 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 \$5.7M annually. ERS Housing also maintains a tenant base under lease which generates over \$257,000 in rental revenues each month.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

3. PROPERTY AND EQUIPMENT

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	121,192,646	2,747,481	-	123,940,127
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	15,645,831	4,206,030	-	19,851,861
Net property and equipment	<u>\$ 105,546,815</u>	<u>\$ (1,458,549)</u>	<u>\$ -</u>	<u>\$ 104,088,266</u>

Property and equipment activity for the year ended June 30, 2018 was as follows:

	July 1, 2017 Beginning Balance	Additions	Retirements and CIP Transfers	June 30, 2018 Ending Balance
Land - Nondepreciable	\$ 169,349	\$ -	\$ -	\$ 169,349
Infrastructure	10,377,241	-	-	10,377,241
Buildings	110,485,715	33,920	-	110,519,635
Furnishings and movable equipment	126,421	-	-	126,421
Construction in progress - Nondepreciable	-	-	-	-
Total historical cost	121,158,726	33,920	-	121,192,646
Less: accumulated depreciation				
Infrastructure	3,399,815	1,362,718	-	4,762,533
Buildings	7,935,276	2,832,033	-	10,767,309
Furnishings and movable equipment	93,482	22,507	-	115,989
Total accumulated depreciation	11,428,573	4,217,258	-	15,645,831
Net property and equipment	<u>\$ 109,730,153</u>	<u>\$ (4,183,338)</u>	<u>\$ -</u>	<u>\$ 105,546,815</u>

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

Construction in progress consists of construction costs related to the Medical Office Building in 2019. ERS expects to spend an additional \$7.7M (in conjunction with contributions from NEOMED and BioMed of \$2.5M and \$12.4M, respectively – Note 6) to place the building into service in Summer of 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, 2019 and 2018, fund balances held by the Trustee were as follows:

	<u>2019</u>	<u>2018</u>
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 1,490,666	\$ 1,464,047
<u>ERS Housing LLC</u>		
Revenue fund	\$ 18,218	\$ 7,641
Repair & replace fund	331,004	249,990
Sinking fund	199,036	184,534
Surplus fund	93,286	-
	<u>641,544</u>	<u>442,165</u>
Total	<u>\$ 2,132,210</u>	<u>\$ 1,906,212</u>

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-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

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2019 and 2018 was \$34,880,000 and \$35,385,000, 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) and a maturity date of November 8, 2044.

The balance outstanding as of June 30, 2019 and 2018 was \$77,664,357 and \$79,169,992, 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 \$493,530 and \$513,336 as of June 30, 2019 and 2018, 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, 2019 and June 30, 2018, changes in debt consisted of the following:

	July 1, 2018	Borrowed	Retired	June 30, 2019	Current
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	79,169,992	-	1,505,635	77,664,357	1,580,934
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>
	July 1, 2017	Borrowed	Retired	June 30, 2018	Current
ERS Housing LLC	\$ 35,815,000	\$ -	\$ 430,000	\$ 35,385,000	\$ 505,000
ERS Housing LLC Discount	(533,143)	-	(19,807)	(513,336)	-
ERS HWMEC LLC	80,603,915	-	1,433,923	79,169,992	1,505,635
Total bonds and notes payable	<u>\$ 115,885,772</u>	<u>\$ -</u>	<u>\$ 1,844,116</u>	<u>\$ 114,041,656</u>	<u>\$ 2,010,635</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, 2019 and 2018. Total bonds and notes payable in the chart above are not shown net of

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

bond financing costs of \$2,185,862 and \$2,272,324 for the years ended June 30, 2019 and 2018, respectively.

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2019 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
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	2,700,186	5,465,359	8,165,545
2024	2,831,715	5,323,696	8,155,411
2025-2029	16,424,986	24,194,374	40,619,360
2030-2034	20,846,267	19,455,809	40,302,076
2035-2039	26,584,055	13,321,958	39,906,013
2040-2044	33,953,662	5,431,599	39,385,261
2045	2,199,538	29,719	2,229,257
	<u>\$ 112,544,357</u>	<u>\$ 90,325,040</u>	<u>\$ 202,869,397</u>

6. RELATED PARTY TRANSACTIONS

Revenues

For the years ended June 30, 2019 and 2018, NEOMED made payments to ERS HWMEC in the amount of \$5,741,030 and \$5,748,363, respectively, for the lease of the Wellness center.

Expenses

For the years ended June 30, 2019 and 2018, NEOMED made payments on behalf of ERS in the amount of \$118,150 and \$54,031, respectively, for expenses. Reimbursements and payments for naming rights in the amount of \$294,889 and \$163,400 were received in ERS companies during fiscal years 2019 and 2018, respectively, and used to offset current and prior year expenses paid by NEOMED. For the years ended June 30, 2019 and 2018, \$15,562 and \$14,946, respectively, related to legal fees relating to MOB construction in 2019 and attainment of property tax exemption and design tenant lease structures in 2018. 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 \$318,551 and \$317,916 for the years ended June 30, 2019 and 2018, respectively. Additional support for the MOB building

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND JUNE 30, 2018

construction in the amount of \$1,410,259 was received from BioMed for the year ended June 30, 2019 and recorded in deferred revenue.

Related Party Payable

At June 30, 2019 and 2018, ERS had amounts due to NEOMED totaling \$7,004,282 and \$5,855,295, 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 Summer 2020. The Ohio Facilities Commission (OFCC) entered into an agreement with the BioMed Science Academy STEM School (BioMed) to financial contribute \$12,380,192 for a portion of the building. BioMed is 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 gifted to ERS over time as expenses are incurred. In exchange for the assistance with financing the building, BioMed will occupy a portion of the building for 25 years. As such, the contribution is being recorded as deferred rental income which will be recognized as revenue over the 25-year period. ERS has recorded \$1,410,259 in deferred rental income as of June 30, 2019. 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, \$1,325,726 has been spent as of June 30, 2019, and temporary financing and debt issuances of \$7,723,200 by ERS. No debt has been issued related to this project as of June 30, 2019.

ADDITIONAL INFORMATION

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, 2019 and have issued our report thereon dated October 3, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2019 consolidated financial statements as a whole. The additional 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 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2019 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 2019 consolidated financial statements as a whole.

Plante & Moran, PLLC

October 3, 2019

ERS STRATEGIC PROPERTIES, INC.
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	Eliminating Entries	Total
ASSETS								
Current assets								
Cash and equivalents	\$ 369,618	\$ 30,613	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400,231
Accounts receivable	10,647	-	-	-	-	-	-	10,647
Prepays	2,274	667	-	-	-	-	-	2,941
Total current assets	382,539	31,280	-	-	-	-	-	413,819
Noncurrent assets								
Property and equipment, net	30,915,519	70,172,322	173,560	90,880	-	2,735,985	-	104,088,266
Funds held by trustee	641,544	1,490,666	-	-	-	-	-	2,132,210
Total noncurrent assets	31,557,063	71,662,988	173,560	90,880	-	2,735,985	-	106,220,476
Total assets	<u>\$ 31,939,602</u>	<u>\$ 71,694,268</u>	<u>\$ 173,560</u>	<u>\$ 90,880</u>	<u>\$ -</u>	<u>\$ 2,735,985</u>	<u>\$ -</u>	<u>\$ 106,634,295</u>
LIABILITIES AND DEFICIENCY IN NET ASSETS								
Current liabilities								
Accounts payable	18,500	-	-	-	-	-	-	18,500
Deposits	233,688	-	-	-	-	-	-	233,688
Deferred rental income	44,389	438,349	-	-	-	1,410,259	-	1,892,997
Accrued interest payable	138,918	255,817	-	-	-	-	-	394,735
Accrued expenses	12,615	12,263	-	-	1,201	-	-	26,079
Related party payable	31,312	43,031	-	-	-	-	-	74,343
Bond payable - Current portion	585,000	1,580,934	-	-	-	-	-	2,165,934
Total current liabilities	1,064,422	2,330,394	-	-	1,201	1,410,259	-	4,806,276
Noncurrent liabilities								
Related party payable	1,889,806	3,119,951	215,118	340,399	38,939	1,325,726	-	6,929,939
Bond payable - net of debt issuance costs and current portion	32,875,550	74,823,481	-	-	-	-	-	107,699,031
Total noncurrent liabilities	34,765,356	77,943,432	215,118	340,399	38,939	1,325,726	-	114,628,970
Total liabilities	35,829,778	80,273,826	215,118	340,399	40,140	2,735,985	-	119,435,246
Deficiency in net assets - w/o donor restrictions	(3,890,176)	(8,579,558)	(41,558)	(249,519)	(40,140)	-	-	(12,800,951)
Total liabilities and deficiency in net assets	<u>\$ 31,939,602</u>	<u>\$ 71,694,268</u>	<u>\$ 173,560</u>	<u>\$ 90,880</u>	<u>\$ -</u>	<u>\$ 2,735,985</u>	<u>\$ -</u>	<u>\$ 106,634,295</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, 2019

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Bradley Rd., LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	Eliminating Entries	Total
Revenue								
Rental revenue	\$ 2,985,755	\$ 5,599,789	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,585,544
Other revenue	22,260	-	-	-	-	-	-	22,260
Investment Income	16,893	26,619	-	-	-	-	-	43,512
Private donations	-	104,000	-	-	-	-	-	104,000
Northeast Ohio Medical University	166,760	151,791	-	-	-	-	-	318,551
Total revenue	3,191,668	5,882,199	-	-	-	-	-	9,073,867
Expenses								
Payroll, benefits, and taxes	323,559	143,312	-	-	-	-	-	466,871
Management fees	99,366	-	-	-	-	-	-	99,366
Operating and administrative	21,770	5,301	-	-	-	-	-	27,071
Interior unit expenses	499	-	-	-	-	-	-	499
Common area expenses	168,600	-	2,752	55	-	-	-	171,407
Building maintenance	136,292	33,131	-	-	-	-	-	169,423
Professional fees	86,620	23,762	-	2,000	15,562	-	-	127,944
Marketing and advertising	4,308	-	-	-	-	-	-	4,308
Depreciation	911,927	3,291,347	2,756	-	-	-	-	4,206,030
Interest expense	1,733,473	4,274,860	-	-	-	-	-	6,008,333
Total expenses	3,486,414	7,771,713	5,508	2,055	15,562	-	-	11,281,252
DECREASE IN NET ASSETS W/O DONOR RESTRICTIONS	(294,746)	(1,889,514)	(5,508)	(2,055)	(15,562)	-	-	(2,207,385)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(3,595,430)	(6,690,044)	(36,050)	(247,464)	(24,578)	-	-	(10,593,566)
DEFICIENCY IN NET ASSETS AT END OF YEAR	<u>\$ (3,890,176)</u>	<u>\$ (8,579,558)</u>	<u>\$ (41,558)</u>	<u>\$ (249,519)</u>	<u>\$ (40,140)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,800,951)</u>

This page intentionally left blank.

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 statement of financial position as of June 30, 2019 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 3, 2019.

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 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, 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

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 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' Response to Findings

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

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 3, 2019

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section II - Financial Statement Audit Findings

Reference Number	Finding
2019-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - Individuals who are no longer employed at ERS should not have access to financial accounts (banking and debt).</p> <p>Condition - During the testing of cash, we noted the former controller and former director of the board of trustees still have access to the U.S. bank accounts.</p> <p>Context - Accounts were never removed subsequent to these individuals' departures. The controller had read-only access, while the board of trustee director had drawdown access. Note that these individuals had access to eight accounts, noting that these individuals did not have access to the main checking account.</p> <p>Cause - Lack of controls surrounding access removal</p> <p>Effect - The lack of controls could lead to misappropriation of assets.</p> <p>Recommendation - We recommend ERS create a workflow or checklist upon employee termination to ensure all access is removed from bank accounts.</p> <p>Views of Responsible Officials and Planned Corrective Actions - ERS will create a workflow or checklist upon employee termination to ensure all account access is removed from bank accounts.</p>

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



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 19, 2019**