

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES

**(A COMPONENT UNIT OF NORTHEAST OHIO
MEDICAL UNIVERSITY)**

PORTAGE COUNTY, OHIO

REGULAR AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**



Rea & associates

www.reacpa.com

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(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 Rea & Associates, Inc., for the audit period July 1, 2020 through June 30, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 25, 2021

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ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A COMPONENT UNIT OF NORTHEAST OHIO MEDICAL UNIVERSITY)

PORTAGE COUNTY, OHIO
JUNE 30, 2021

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Independent Auditor's Report

Board of Directors
ERS Strategic Properties, Inc. and Subsidiaries
4209 State Route 44
PO Box 95
Rootstown, Ohio 44272

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ERS Strategic Properties, Inc. and Subsidiaries (“ERS”), a component unit of Northeast Ohio Medical University, which comprise the consolidated statement of financial position as of June 30, 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 consolidated financial position of the ERS Strategic Properties, Inc. and Subsidiaries, as of June 30, 2021, and the changes in its net assets and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The consolidated financial statements of the ERS as of the year ended June 30, 2020, were audited by other auditors whose report dated October 7, 2020, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2021 on our consideration of ERS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of ERS's 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's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Rea & Associates, Inc.
Cleveland, Ohio
October 5, 2021

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020

ASSETS	June 30	
	2021	2020
Current assets		
Cash and cash equivalents	\$ 418,288	\$ 1,056,470
Accounts receivable	33,301	41,657
Prepays	1,500	4,689
Total current assets	453,089	1,102,816
Noncurrent assets		
Property and equipment, net (Note 3)	120,018,575	118,822,452
Funds held by trustee (Note 4)	1,757,866	1,623,322
Total noncurrent assets	121,776,441	120,445,774
Total assets	\$ 122,229,530	\$ 121,548,590
LIABILITIES AND DEFICIENCIES IN NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,860	\$ -
Deposits	247,304	232,958
Deferred rental income	1,193,328	607,315
Accrued interest payable	380,686	388,004
Accrued liabilities	125,554	1,264,803
Related party payable (Note 6)	31,323	356,448
Bond payable - current portion (Note 5)	2,508,016	2,329,998
Total current liabilities	4,490,071	5,179,526
Noncurrent liabilities		
Related party payable (Note 6)	18,304,760	14,198,951
Deferred rental income (Note 6)	10,816,724	11,465,426
Bonds payable - net of debt issuance costs and current portion (Note 5)	103,073,556	105,475,303
Total noncurrent liabilities	132,195,040	131,139,680
Total liabilities	136,685,111	136,319,206
Deficiency in net assets - without donor restrictions	(14,455,581)	(14,770,616)
Total liabilities and deficiency in net assets	\$ 122,229,530	\$ 121,548,590

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Revenue and Support		
Rental revenue, net	\$ 9,188,018	\$ 8,734,763
Other revenue	16,873	23,009
Investment income	169	28,410
Private contributions	2,659,875	648,526
In-kind support from Northeast Ohio Medical University	170,855	307,068
Total revenue and support	12,035,790	9,741,776
Expenses and Losses		
Payroll, benefits, and taxes	363,252	474,089
Management fees	105,417	102,347
Operating and administrative	18,141	28,711
Interior unit expenses	186,344	36,442
Common area expenses	223,060	204,793
Building maintenance	147,563	224,720
Professional fees	71,749	516,087
Marketing and advertising	3,914	3,680
Loss on disposal of asset	181,865	-
Depreciation	4,616,887	4,210,974
Interest expense	5,802,563	5,909,598
Total expenses and losses	11,720,755	11,711,441
CHANGE IN NET ASSETS	315,035	(1,969,665)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(14,770,616)	(12,800,951)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (14,455,581)	\$ (14,770,616)

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2021 AND 2020

	2021			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 196,737	\$ 166,516	\$ -	\$ 363,253
Management fees	105,417	-	-	105,417
Operating and administrative	4,995	14,287	-	19,282
Interior unit expenses	185,202	-	-	185,202
Common area expenses	208,173	14,887	-	223,060
Building maintenance	147,563	-	-	147,563
Professional fees	27,755	43,995	-	71,750
Marketing and advertising	-	3,914	-	3,914
Depreciation	4,616,887	-	-	4,616,887
Interest expense	5,802,562	-	-	5,802,562
Loss on disposal of asset	181,865	-	-	181,865
Total Expenses	\$ 11,477,156	\$ 243,599	\$ -	\$ 11,720,755

	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
Total Expenses	\$ 10,882,162	\$ 829,279	\$ -	\$ 11,711,441

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	\$ 315,035	\$ (1,969,665)
Adjustments to reconcile increase/(decrease) in net assets to cash provided by operating activities:		
Depreciation	4,616,887	4,210,974
Contribution received for construction of Medical Office Building	(2,575,430)	-
Biomed funding restricted for construction of Medical Office Building	(223,655)	(10,055,167)
Loss on disposal of asset	181,865	-
Amortization of deferred financing costs	86,462	86,462
Amortization of discount on bonds payable	19,807	19,808
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	8,356	(31,010)
Prepaid expenses and deferred charges	3,189	(1,748)
Accounts payable	3,860	(18,500)
Accrued liabilities	(1,209,256)	10,214,563
Deposits held in rent	14,346	(730)
	1,241,466	2,454,987
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	(5,994,875)	(18,945,160)
Net cash used in investing activities	(5,994,875)	(18,945,160)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Related party payables	3,780,683	8,748,291
Contribution received for construction of Medical Office Building	2,575,430	-
Biomed funding for construction of Medical Office Building	223,655	10,055,167
Payments made on bonds	(2,329,998)	(2,165,934)
(Increase) Decrease in funds held by trustee	(134,543)	508,888
Net cash provided by financing activities	4,115,227	17,146,412
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(638,182)	656,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,056,470	400,231
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ 418,288	\$ 1,056,470
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	5,723,419	5,829,868
In-kind support	170,855	307,068

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

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 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 operates as a medical office building for community physicians to give care to patients, provide medical services for students, 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 with the commencement of the new school year in August, 2021. Construction for ERS MOB began in spring 2019 and was completed in the winter of 2021. ERS RGE, LLC was formed in 2020 to establish additional research space for outside tenants and construction began in spring of 2020 with completion in March, 2021. 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. Operating losses are primarily a result of depreciation expense and therefore operating losses are not an indication of whether ERS is able to continue as a going concern. As the projects complete, the expected 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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities and changes in net assets as net assets released from restriction.

For the years ended June 30, 2021 and 2020, 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 in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

At June 30, 2021 and 2020 funds held by trustees were \$1,757,866 and \$1,623,322, 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, 2021 and 2020; 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, 2021 and 2020.

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>Land improvements</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

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2021 and 2020.

Deposits

All tenants are required to provide up to one month's rent as a security deposit. Security deposits totaled \$247,403 and \$232,958 for years ended June 30, 2021 and 2020, 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, 2021 and 2020, respectively. Accumulated amortization totaled \$763,879 and \$677,417 as of June 30, 2021 and 2020, respectively.

Accrued Construction Costs Payable

Included in accrued construction costs payable at June 30, 2021 and 2020 is \$56,087 and \$1,197,174 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. However, certain unrelated business activity may be subject to federal income taxes. ERS had no unrelated business activities and therefore, no provision for such taxes was necessary for the years ended June 30, 2021 and 2020.

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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

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

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.

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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

Change in Accounting Principle

For the year ended June 30, 2021, ERS adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This guidance supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the Statement of Financial Position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Statement of Activities. The implementation of this change in standard did not have a significant effect on the financial statements of ERS. See Note 7 for further details on implementation.

Subsequent Events

ERS evaluated the effect of subsequent events through October 5, 2021, 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:

	2021	2020
Cash and cash equivalents	\$ 418,288	\$ 1,056,470
Accounts receivable	33,301	41,657
	\$ 451,589	\$ 1,098,127

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 \$1,953,000 during fiscal year 2021 and \$1,951,000 during fiscal year 2020. 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, 2021 and 2020. ERS Housing also maintains a tenant base under lease which generated over \$265,000 and \$261,000 in rental revenues each month in fiscal years 2021 and 2020, respectively.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

3. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2021 was as follows:

	July 1, 2020 <u>Beginning Balance</u>	<u>Additions</u>	Retirements and <u>CIP Transfers</u>	June 30, 2021 Ending <u>Balance</u>
Land - Nondepreciable	\$ 273,622	\$ -	\$ -	\$ 273,622
Infrastructure	10,377,241	-	19,830	10,397,071
Buildings	111,348,719	5,897,995	20,398,589	137,645,303
Furnishings and movable equipment	126,421	96,880	153,458	376,759
Construction in progress - Nondepreciable	<u>20,759,284</u>	<u>-</u>	<u>(20,756,044)</u>	<u>3,240</u>
Total historical cost	<u>142,885,287</u>	<u>5,994,875</u>	<u>(184,167)</u>	<u>148,695,995</u>
Less: accumulated depreciation				
Infrastructure	7,487,968	1,362,966	-	8,850,934
Buildings	16,448,447	3,242,000	(2,302)	19,688,145
Furnishings and movable equipment	<u>126,420</u>	<u>11,921</u>	<u>-</u>	<u>138,341</u>
Total accumulated depreciation	<u>24,062,835</u>	<u>4,616,887</u>	<u>(2,302)</u>	<u>28,677,420</u>
Net property and equipment	<u>\$ 118,822,452</u>	<u>\$ 1,377,988</u>	<u>\$ (181,865)</u>	<u>\$ 120,018,575</u>

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

	July 1, 2019 <u>Beginning Balance</u>	<u>Additions</u>	Retirements and <u>CIP Transfers</u>	June 30, 2020 Ending <u>Balance</u>
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	<u>2,747,481</u>	<u>18,023,300</u>	<u>(11,497)</u>	<u>20,759,284</u>
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	<u>126,420</u>	<u>-</u>	<u>-</u>	<u>126,420</u>
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>

Construction in progress consists of construction costs related to the HWMEC restaurant renovation which is expected to be completed in fall 2021.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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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, 2021 and 2020, fund balances held by the Trustee were as follows:

	2021	2020
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 832,880	\$ 832,793
<u>ERS Housing LLC</u>		
Revenue fund	\$ 9,353	\$ 10,685
Repair & Replace fund	396,393	377,526
Sinking fund	198,877	208,641
Surplus fund	320,363	193,677
Subtotal ERS Housing LLC	\$ 924,986	\$ 790,529
Total	\$ 1,757,866	\$ 1,623,322

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 percent and a maturity date of June 1, 2044. The balance outstanding as of June 30, 2021 and 2020 was \$33,625,000 and \$34,295,000, respectively and the principal payments started on December 1, 2014.

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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, 2021 and 2020 was \$74,423,425 and \$76,083,423, 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 \$453,915 and \$473,722 as of June 30, 2021 and 2020, 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, 2021 and June 30, 2020, changes in debt consisted of the following:

	July 1, 2020	Borrowed	Retired	June 30, 2021	Current
ERS Housing LLC	\$ 34,295,000	\$ -	\$ 670,000	\$ 33,625,000	\$ 765,000
ERS Housing LLC Discount	(473,722)	-	(19,807)	(453,915)	-
ERS HWMEC LLC	<u>76,083,423</u>	-	<u>1,659,998</u>	<u>74,423,425</u>	<u>1,743,016</u>
Total bonds and notes payable	<u>\$ 109,904,701</u>	<u>\$ -</u>	<u>\$ 2,310,191</u>	<u>\$ 107,594,510</u>	<u>\$ 2,508,016</u>
	July 1, 2019	Borrowed	Retired	June 30, 2020	Current
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>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>

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, 2021 and 2020. Total bonds and notes payable in the chart above are not shown net of bond financing costs of \$2,012,938 and \$2,099,400 for the years ended June 30, 2021 and 2020, respectively.

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FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2021 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
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	3,123,735	5,012,156	8,135,891
2027-2031	18,078,118	22,425,008	40,503,126
2032-2036	22,955,300	17,197,965	40,153,265
2037-2041	29,316,290	10,395,310	39,711,600
2042-2045	23,562,243	2,231,257	25,793,500
	<u>\$ 108,048,425</u>	<u>\$ 78,811,368</u>	<u>\$ 186,859,793</u>

6. RELATED PARTY TRANSACTIONS

Revenues

For the years ended June 30, 2021 and 2020, NEOMED made payments to ERS HWMEC in the amount of \$5,725,247 and \$5,733,331, respectively, for the lease of the Wellness center. In addition, a gift of \$2,575,430 was made from NEOMED to ERS MOB, LLC to assist with funding construction of the medical office building.

Expenses

For the years ended June 30, 2021 and 2020, NEOMED made payments on behalf of ERS in the amount of \$50,378 and \$88,818, respectively, for expenses. Reimbursements and payments for naming rights in the amount of \$166,131 and \$709,553 were received in ERS companies during fiscal years 2021 and 2020, respectively, and are used to offset current and prior year expenses paid by NEOMED. For the years ended June 30, 2021 and 2020, \$21,359 and \$42,322, respectively, related to legal fees relating to MOB and RGE construction, property tax exemptions for HWMEC 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 changes in net assets. The University's in-kind support for these services was valued at \$170,855 and \$307,068 for the years ended June 30, 2021 and 2020, respectively. Additional support for the MOB building construction in the amount of \$223,655

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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was received from BioMed for the year ended June 30, 2021 as compared to \$10,055,167 in the year ended June 30, 2020 and recorded in unearned revenue. \$404,794 was moved from unearned to earned revenue in FY21 according to the straight-line schedule, effective August 2020 – August 2045.

Related Party Payable

At June 30, 2021 and 2020, ERS had amounts due to NEOMED totaling \$18,336,083 and \$14,555,399, respectively, for construction, operating expenses such as utilities and taxes, legal fees and property acquisition costs which were paid by NEOMED on behalf of ERS. NEOMED advances monies to ERS, interest free, as needed to assist with cash flow. All payables are expected to be repaid in full as funds become available.

Medical Office Building

The construction of the Medical Office Building on NEOMED's campus was mostly complete as of June 2021. A certificate of occupancy has been issued. The first floor of the building continues to be built out by tenant Summa. The Ohio Facilities Commission (OFCC) entered into an agreement with the BioMed Science Academy STEM School (BioMed), to financially contribute \$12,380,192 for a portion of the building. The remainder of the building has been allocated for NEOMED/ERS usage, but the entire building is 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 has been recorded as unearned rental income. Recognition of this revenue began as of August 2020 and will continue until August, 2046. The FY21 revenue recognized was \$404,794 as of June 30, 2021. ERS has recorded \$11,284,287 and \$11,465,426 in unearned rental income as of June 30, 2021 and 2020, respectively. BioMed's contribution to the project approximates the fair market value of expected rent revenues over the life of the agreement. In addition to the OFCC funding mentioned above, the remaining funding of the building is in part from NEOMED reserves, amounting to \$2,575,430, of which \$2,415,421 has been spent as of June 30, 2021, and temporary financing of \$9,139,377 by NEOMED, of which \$8,151,981 has been spent. Debt was issued by NEOMED in February 2021 to cover the temporary financing portion of the project and a related party payable has been recorded for the amounts outstanding from ERS to reimburse NEOMED.

7. LEASES

ERS leases the Wellness Center and office space to related parties. These leases have been classified as operating leases by ERS as the lessor. The operating leases have remaining lease terms ranging from 21 years to 43 years, and include options to renew for various terms to be agreed upon by both ERS and related parties involved.

Effective July 1, 2020, ERS adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (ASC Topic 842)*. ERS has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, ERS accounted for its existing leases as operating

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND JUNE 30, 2020

leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the lease would be different in accordance with ASC Topic 842, or (c) whether unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As operating leases, ERS continues to report the underlying assets in property and equipment and recognizes lease revenue on a straight line basis over the terms of the lease, see Note 6 for additional information regarding lease revenues.

ADDITIONAL INFORMATION

ERS STRATEGIC PROPERTIES, INC.
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021

	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	\$ 387,675	\$ 30,613	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 418,288
Accounts receivable	33,301	-	-	-	-	-	-	33,301
Prepays	1,500	-	-	-	-	-	-	1,500
Total current assets	422,476	30,613	-	-	-	-	-	453,089
Noncurrent assets								
Property and equipment, net	29,143,904	64,056,504	460,399	-	22,250,144	4,107,624	-	120,018,575
Funds held by trustee	924,986	832,880	-	-	-	-	-	1,757,866
Total noncurrent assets	30,068,890	64,889,384	460,399	-	22,250,144	4,107,624	-	121,776,441
Total assets	\$ 30,491,366	\$ 64,919,997	\$ 460,399	\$ -	\$ 22,250,144	\$ 4,107,624	\$ -	\$ 122,229,530 ¹
LIABILITIES AND DEFICIENCY IN NET ASSETS								
Current liabilities								
Accounts payable	3,860	-	-	-	-	-	-	3,860
Deposits	247,304	-	-	-	-	-	-	247,304
Unearned rental income	28,416	697,349	-	-	467,563	-	-	1,193,328
Accrued interest payable	135,544	245,142	-	-	-	-	-	380,686
Accrued liabilities	69,467	-	-	-	56,087	-	-	125,554
Accrued construction costs payable	-	-	-	-	-	-	-	-
Related party payable	6,733	24,590	-	-	-	-	-	31,323
Bond payable - Current portion	765,000	1,743,016	-	-	-	-	-	2,508,016
Total current liabilities	1,256,324	2,710,097	-	-	523,650	-	-	4,490,071
Noncurrent liabilities								
Related party payable	1,859,009	2,749,939	975,376	84,047	8,267,650	4,368,739	-	18,304,760
Unearned rental income	-	-	-	-	10,816,724	-	-	10,816,724
Bond payable - net of debt issuance costs and current portion	31,554,239	71,519,317	-	-	-	-	-	103,073,556
Total noncurrent liabilities	33,413,248	74,269,256	975,376	84,047	19,084,374	4,368,739	-	132,195,040
Total liabilities	34,669,572	76,979,353	975,376	84,047	19,608,024	4,368,739	-	136,685,111
Deficiency in net assets - w/o donor restrictions	(4,178,206)	(12,059,356)	(514,977)	(84,047)	2,642,120	(261,115)	-	(14,455,581)
Total liabilities and deficiency in net assets	\$ 30,491,366	\$ 64,919,997	\$ 460,399	\$ -	\$ 22,250,144	\$ 4,107,624	\$ -	\$ 122,229,530 ¹

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, 2021

	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	\$ 3,183,335	\$ 5,599,789	\$ -	\$ 100	\$ 404,794	\$ -	\$ -	\$ 9,188,018
Other revenue	16,873	-	-	-	-	-	-	16,873
Investment Income	82	87	-	-	-	-	-	169
Private donations	-	84,445	-	-	2,575,430	-	-	2,659,875
In-kind Support from Northeast Ohio Medical University	131,758	39,097	-	-	-	-	-	170,855
Total revenue	3,332,048	5,723,418	-	100	2,980,224	-	-	12,035,790¹
Expenses								
Payroll, benefits, and taxes	324,155	39,097	-	-	-	-	-	363,252
Management fees	105,417	-	-	-	-	-	-	105,417
Operating and administrative	16,918	1,409	-	-	207	(393)	-	18,141
Interior unit expenses	27,856	-	-	-	7,692	150,796	-	186,344
Common area expenses	207,667	-	14,887	-	506	-	-	223,060
Building maintenance	145,576	2,225	-	-	4,143	(4,381)	-	147,563
Professional fees	28,652	27,432	3,816	5,025	6,742	82	-	71,749
Marketing and advertising	3,914	-	-	-	-	-	-	3,914
Loss on disposal of asset	-	-	181,865	-	-	-	-	181,865
Depreciation	903,192	3,313,166	5,281	-	287,901	107,347	-	4,616,887
Interest expense	1,698,357	4,104,206	-	-	-	-	-	5,802,563
Total expenses	3,461,704	7,487,535	205,849	5,025	307,191	253,451	-	11,720,755¹
INCR (DECR) IN NET ASSETS W/O DONOR RESTRICTIONS	(129,656)	(1,764,117)	(205,849)	(4,925)	2,673,033	(253,451)	-	315,035¹
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(4,048,550)	(10,295,239)	(309,128)	(79,122)	(30,913)	(7,664)	-	(14,770,616)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (4,178,206)	\$ (12,059,356)	\$ (514,977)	\$ (84,047)	\$ 2,642,120	\$ (261,115)	\$ -	\$ (14,455,581)¹

**Independent Auditor’s 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***

Board of Directors
ERS Strategic Properties, Inc. and Subsidiaries
4209 State Route 44
PO Box 95
Rootstown, Ohio 44272

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ERS Strategic Properties, Inc. and Subsidiaries (“ERS”), a component unit of the Northeast Ohio Medical University, which collectively comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the ERS’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ERS’s internal control. Accordingly, we do not express an opinion on the effectiveness of the ERS’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 the ERS's 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Rea & Associates, Inc.
Cleveland, Ohio
October 5, 2021

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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 11/4/2021

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