

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, 2023



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, 2022 through June 30, 2023. 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 08, 2023

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

**PORTAGE COUNTY, OHIO
JUNE 30, 2023**

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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 Audit of the Financial Statements

Opinion

We have audited the 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, 2023 and 2022, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of ERS as of June 30, 2023 and 2022, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 6, in September 2022, ERS Housing, LLC sold its buildings to Northeast Ohio Medical University. In exchange, Northeast Ohio Medical University paid off ERS Housing, LLC's debt. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ERS's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit 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 ERS's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ERS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the consolidating statements of financial position and consolidating statement of activities and changes in net assets are 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 10, 2023 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 solely 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.
Independence, Ohio
October 10, 2023

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2023 AND JUNE 30, 2022

ASSETS	2023	2022
Current assets		
Cash and cash equivalents	\$ 961,947	\$ 404,576
Accounts receivable	25,088	38,245
Prepays	5,510	1,930
Total current assets	992,545	444,751
Noncurrent assets		
Property and equipment, net (Note 3)	80,876,430	111,733,639
Funds held by trustee (Note 4)	858,620	1,699,601
Total noncurrent assets	81,735,050	113,433,240
Total assets	\$ 82,727,595	\$ 113,877,991
 LIABILITIES AND DEFICIENCIES IN NET ASSETS		
Current Liabilities		
Accounts payable	\$ 15,241	\$ 30,446
Deposits	228,108	217,221
Deferred rental income	1,427,353	1,321,098
Accrued interest payable	233,373	372,753
Accrued liabilities	6,136	961
Related party payable (Note 6)	599,053	17,344
Bond payable - current portion (Note 5)	1,921,715	2,700,186
Total current liabilities	4,430,979	4,660,009
Noncurrent liabilities		
Related party payable (Note 6)	11,857,321	14,046,803
Deferred rental income (Note 6)	9,895,088	10,362,651
Bonds payable - net of debt issuance costs and current portion (Note 5)	67,866,266	100,479,639
Total noncurrent liabilities	89,618,675	124,889,093
Total liabilities	94,049,654	129,549,102
Deficiency in net assets - without donor restrictions	(11,322,059)	(15,671,111)
Total liabilities and deficiency in net assets	\$ 82,727,595	\$ 113,877,991

The accompany notes are an integral part of the financial statements.

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, 2023 AND JUNE 30, 2022

	2023	2022
Revenue and Support		
Rental revenue, net	\$ 10,348,453	\$ 9,143,012
Other revenue	19,602	21,783
Investment income	30,800	617
Related entity and Other contributions	4,285,767	332,006
In-kind support from Northeast Ohio Medical University	877,017	288,542
Total revenue	15,561,639	9,785,960
Expenses and Losses		
Payroll, benefits, and taxes	964,289	464,379
Management fees	111,837	108,580
Operating and administrative	34,740	26,469
Interior unit expenses	29,222	50,642
Common area expenses	252,216	235,858
Building maintenance	233,184	107,948
Professional fees	66,704	83,380
Marketing and advertising	1,549	2,996
Loss on disposal of asset	-	55,113
Debt Service	2,261,250	-
Depreciation	2,797,862	4,178,934
Interest expense	4,459,734	5,687,191
Total expenses and losses	11,212,587	11,001,490
CHANGE IN NET ASSETS	4,349,052	(1,215,530)
DEFICIENCY IN NET ASSETS AT BEGINNING OF YEAR	(15,671,111)	(14,455,581)
DEFICIENCY IN NET ASSETS AT END OF YEAR	\$ (11,322,059)	\$ (15,671,111)

The accompany notes are an integral part of the financial statements.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

	2023			
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 230,555	\$ 733,734	\$ -	\$ 964,289
Management fees	111,837	-	-	111,837
Operating and administrative	8,397	26,343	-	34,740
Interior unit expenses	29,222	-	-	29,222
Common area expenses	243,068	9,148	-	252,216
Building maintenance	233,184	-	-	233,184
Professional fees	37,959	28,745	-	66,704
Marketing and advertising	-	1,549	-	1,549
Debt Service	2,261,250	-	-	2,261,250
Depreciation	2,797,862	-	-	2,797,862
Interest expense	4,459,734	-	-	4,459,734
	<u>\$ 10,413,068</u>	<u>\$ 799,519</u>	<u>\$ -</u>	<u>\$ 11,212,587</u>
2022				
	Program Services	Management and General	Fundraising	Total
EXPENSES				
Payroll, benefits, and taxes	\$ 199,452	\$ 264,927	\$ -	\$ 464,379
Management fees	108,580	-	-	108,580
Operating and administrative	4,252	22,217	-	26,469
Interior unit expenses	50,642	-	-	50,642
Common area expenses	227,386	8,472	-	235,858
Building maintenance	107,948	-	-	107,948
Professional fees	34,551	48,829	-	83,380
Marketing and advertising	-	2,996	-	2,996
Depreciation	4,178,934	-	-	4,178,934
Interest expense	5,687,191	-	-	5,687,191
Loss on disposal of asset	55,113	-	-	55,113
	<u>\$ 10,654,049</u>	<u>\$ 347,441</u>	<u>\$ -</u>	<u>\$ 11,001,490</u>

The accompany notes are an integral part of the financial statements.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	\$ 4,349,052	\$ (1,215,530)
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	2,797,862	4,178,934
Biomed funding restricted for construction of Medical Office Building	-	(13,491)
Non-cash contribution received for RGE dissolution	-	(262,027)
Gain on sale of assets	(4,228,767)	-
Loss on disposal of asset	-	55,113
Amortization of deferred financing costs	864,235	86,462
Amortization of discount on bonds payable	434,107	19,808
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	13,157	(4,944)
Prepaid expenses and deferred charges	(3,580)	(430)
Accounts payable	(15,205)	26,586
Accrued liabilities	(495,513)	(458,829)
Deposits held in rent	10,887	(30,083)
	3,726,235	2,381,569
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of Housing buildings	32,288,114	-
Purchases of capital assets	-	(56,734)
Net cash used in investing activities	32,288,114	(56,734)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Related party payables	(1,607,773)	97,715
Biomed funding for construction of Medical Office Building	-	13,491
Payments made on bonds	(34,690,186)	(2,508,016)
Decrease in funds held by trustee	840,981	58,263
Net cash used in financing activities	(35,456,978)	(2,338,547)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 557,371	 (13,712)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	 404,576	 418,288
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	 \$ 961,947	 \$ 404,576
	961,947	404,576
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	4,547,837	5,695,124
In-kind support	877,017	288,542
Related party payable forgiveness	4,228,767	4,369,651
Non-cash contribution received for RGE dissolution	-	262,027

The accompany notes are an integral part of the financial statements.

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, 2023 AND JUNE 30, 2022

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, 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, LLC completed construction in fiscal year 2015 and began operations in 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) grades 7 – 12. Construction for ERS MOB began in spring 2019 and was completed in the winter of 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 RGE, LLC was formed in 2020 to establish additional research space for outside tenants and completed construction in 2021. Effective March 31, 2022, ERS RGE, LLC was dissolved as it was determined that the functions of the company were better aligned with those of the University. The assets of the company, valued at \$4,107,624, transferred ownership to the University at that time. See Note 6 for further information regarding dissolution of ERS RGE, LLC.

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, 2023 AND JUNE 30, 2022

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, 2023 and 2022, 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, 2023 AND JUNE 30, 2022

At June 30, 2023 and 2022 funds held by trustees were \$858,620 and \$1,699,601, respectively. US Bank, previously acting as trustee for ERS Housing, LLC, was responsible for holding, managing, and distributing all funds. This relationship terminated in September, 2022 with the payment of the outstanding bond balance by NEOMED. 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, 2023 and 2022; 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, 2023 and 2022.

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>	<i>20-40 Years</i>
<i>Land improvements and Infrastructure</i>	<i>7 Years</i>
<i>Furnishings and movable equipment</i>	<i>3-7 Years</i>

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, 2023 AND JUNE 30, 2022

estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2023 and 2022.

Deposits

All tenants are required to provide up to one month's rent as a security deposit. Security deposits totaled \$228,108 and \$217,221 for years ended June 30, 2023 and 2022, 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 \$864,235 and \$86,462 for each of the years ended June 30, 2023 and 2022, respectively. Accumulated amortization totaled \$521,703 and \$850,341 as of June 30, 2023 and 2022, respectively.

Income Tax

ERS Strategic Properties, Inc. 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, 2023 and 2022.

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 based on 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,

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, 2023 AND JUNE 30, 2022

such as occupancy, maintenance, and depreciation are allocated based on 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets or total net assets.

Subsequent Events

ERS evaluated the effect of subsequent events through October 10, 2023, representing the date that the consolidated financial statements were available to be issued.

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, 2023 AND JUNE 30, 2022

2. AVAILABILITY AND LIQUIDITY

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

	2023	2022
Cash and cash equivalents	\$ 961,947	\$ 404,576
Accounts receivable	25,088	38,245
	\$ 987,035	\$ 442,821

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 \$1,869,000 during fiscal year 2023 and \$1,812,000 during fiscal year 2022. 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, 2023 and 2022. ERS Housing also maintains a tenant base under lease which generated over \$268,000 and \$256,000 in rental revenues on average each month in fiscal years 2023 and 2022, 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, 2023 AND JUNE 30, 2022

3. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2023 was as follows:

	July 1, 2022 <u>Beginning Balance</u>	<u>Additions</u>	Retirements and <u>CIP Transfers</u>	June 30, 2023 Ending <u>Balance</u>
Land - Nondepreciable	\$ 273,622	\$ -	\$ -	\$ 273,622
Land improvements - Nondepreciable	838,217	-	-	838,217
Infrastructure	9,558,854	-	-	9,558,854
Buildings	133,461,712	-	(35,941,234)	97,520,478
Furnishings and movable equipment	325,266	-	(126,421)	198,845
Construction in progress - Nondepreciable	-	-	-	-
Total historical cost	<u>144,457,671</u>	<u>-</u>	<u>(36,067,655)</u>	<u>108,390,016</u>
Less: accumulated depreciation				
Infrastructure	9,537,270	4,481	-	9,541,751
Buildings	22,973,431	2,736,510	(7,881,887)	17,828,054
Furnishings and movable equipment	213,331	56,871	(126,421)	143,781
Total accumulated depreciation	<u>32,724,032</u>	<u>2,797,862</u>	<u>(8,008,308)</u>	<u>27,513,586</u>
Net property and equipment	<u>\$ 111,733,639</u>	<u>\$ (2,797,862)</u>	<u>\$ (28,059,347)</u>	<u>\$ 80,876,430</u>

Property and equipment activity for the year ended June 30, 2022 was as follows:

	July 1, 2021 <u>Beginning Balance</u>	<u>Additions</u>	Retirements and <u>CIP Transfers</u>	June 30, 2022 Ending <u>Balance</u>
Land - Nondepreciable	\$ 273,622	\$ -	\$ -	\$ 273,622
Land improvements - Nondepreciable	838,217	-	-	838,217
Infrastructure	9,558,854	-	-	9,558,854
Buildings	137,645,303	59,974	(4,243,565)	133,461,712
Furnishings and movable equipment	376,759	-	(51,493)	325,266
Construction in progress - Nondepreciable	3,240	-	(3,240)	-
Total historical cost	<u>148,695,995</u>	<u>59,974</u>	<u>(4,298,298)</u>	<u>144,457,671</u>
Less: accumulated depreciation				
Infrastructure	8,850,934	686,336	-	9,537,270
Buildings	19,688,145	3,414,348	(129,062)	22,973,431
Furnishings and movable equipment	138,341	78,250	(3,260)	213,331
Total accumulated depreciation	<u>28,677,420</u>	<u>4,178,934</u>	<u>(132,322)</u>	<u>32,724,032</u>
Net property and equipment	<u>\$ 120,018,575</u>	<u>\$ (4,118,960)</u>	<u>\$ (4,165,976)</u>	<u>\$ 111,733,639</u>

Nondepreciable land improvements were broken out from depreciable infrastructure in the beginning balance column.

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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, 2023 and 2022, fund balances held by the Trustee were as follows:

	2023	2022
<u>ERS HWMEC LLC</u>		
Bond proceeds fund	\$ 858,620	\$ 833,165
 <u>ERS Housing LLC</u>		
Revenue fund	\$ -	\$ 19,987
Repair & Replace fund	-	390,076
Sinking fund	-	198,801
Surplus fund	-	257,572
Subtotal ERS Housing LLC	\$ -	\$ 866,436
 Total	 \$ 858,620	 \$ 1,699,601

5. BONDS PAYABLE

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, 2023 and 2022 was \$70,850,223 and \$72,680,409, respectively, and the principal payments started on December 8, 2014.

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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 bonds were assumed from the Portage County Port Authority by ERS in November 2012 when ERS received its tax-exempt status. On September 1, 2022, NEOMED issued general receipts bonds, the proceeds of which were used to defease the Portage County Port Authority tax-exempt bonds (see Note 6).

The original bond discount for the ERS Housing bonds totaled \$633,830, with an unamortized balance of \$434,107 retired in FY23. There is no discount or premium on the ERS HWMEC bonds.

For the year ended June 30, 2023 and June 30, 2022, changes in debt consisted of the following:

	<u>July 1, 2022</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2023</u>	<u>Current</u>
ERS Housing LLC	\$ 32,860,000	\$ -	\$ 32,860,000	\$ -	\$ -
ERS Housing LLC Discount	(434,107)	-	(434,107)	-	-
ERS HWMEC LLC	<u>72,680,409</u>	<u>-</u>	<u>1,830,186</u>	<u>70,850,223</u>	<u>1,921,715</u>
Total bonds and notes payable	<u>\$ 105,106,302</u>	<u>\$ -</u>	<u>\$ 34,256,079</u>	<u>\$ 70,850,223</u>	<u>\$ 1,921,715</u>
	<u>July 1, 2021</u>	<u>Borrowed</u>	<u>Retired</u>	<u>June 30, 2022</u>	<u>Current</u>
ERS Housing LLC	\$ 33,625,000	\$ -	\$ 765,000	\$ 32,860,000	\$ 870,000
ERS Housing LLC Discount	(453,915)	-	(19,808)	(434,107)	-
ERS HWMEC LLC	<u>74,423,425</u>	<u>-</u>	<u>1,743,016</u>	<u>72,680,409</u>	<u>1,830,186</u>
Total bonds and notes payable	<u>\$ 107,594,510</u>	<u>\$ -</u>	<u>\$ 2,488,208</u>	<u>\$ 105,106,302</u>	<u>\$ 2,700,186</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. Total bonds and notes payable in the chart above are not shown net of bond financing costs of \$1,062,241 and \$1,926,477 for the years ended June 30, 2023 and 2022, respectively.

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Principal and interest payment requirements for the bonded debt for the years subsequent to June 30, 2023 are summarized as follows:

Year Ending June 30	Principal	Interest	Total
2024	1,921,715	3,771,771	5,693,486
2025	2,017,822	3,665,837	5,683,659
2026	2,118,735	3,554,606	5,673,341
2027	2,224,696	3,437,811	5,662,507
2028	2,335,955	3,315,176	5,651,131
2029-2033	13,553,446	14,510,624	28,064,070
2034-2038	17,298,919	10,382,179	27,681,098
2039-2043	22,079,447	5,112,844	27,192,291
2044-2045	7,299,488	298,282	7,597,770
	<u>70,850,223</u>	<u>48,049,130</u>	<u>118,899,353</u>

6. RELATED PARTY TRANSACTIONS

Revenues

For the years ended June 30, 2023 and 2022, NEOMED made payments to ERS HWMEC in the amount of \$5,707,845 and \$5,716,758, respectively, for the lease of the Wellness center. For the years ended June 30, 2023 and 2022, NEOMED made payments to ERS MOB in the amount of \$1,524,852 and \$467,563, respectively, for the lease of the Medical Office Building. For the years ended June 30, 2023 and 2022, the NEOMED Foundation made payments to ERS HWMEC in the amount of \$57,000 and \$69,979 respectively, for naming rights. For the year ended June 30, 2023, ERS Housing recognized revenue in the amount of \$4,228,767 from NEOMED for the purchase of the leasehold interest in The Village property. NEOMED used general receipts bond proceeds to purchase the leasehold interest from ERS for \$32,288,113. The property had a net book value of \$28,059,346.

Expenses

For the years ended June 30, 2023 and 2022, NEOMED made payments on behalf of ERS in the amount of \$46,025 and \$75,269, respectively, for legal and other expenses. For the years ended June 30, 2023 and 2022, ERS Housing made debt service payments to NEOMED in the amount of \$2,261,250 and \$0, respectively. 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

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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at \$877,017 and \$288,542 for the years ended June 30, 2023 and 2022, respectively. The 2023 calculation included the additions of Campus Operations and Police to the total services allocated. No additional support for the MOB building construction was received from BioMed for the year ended June 30, 2023 as compared to \$13,491 in the year ended June 30, 2022 which was recorded in unearned revenue. \$467,563 was moved from unearned to earned revenue in both FY23 and FY22 according to the straight-line schedule, effective August 2020 – August 2045.

Related Party Payable

At June 30, 2023 and 2022, ERS had amounts due to NEOMED totaling \$12,456,374 and \$14,064,147, 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.

As of June 30, 2022, revenue of \$262,027 was recognized by ERS RGE, LLC upon its dissolution in a transaction transferring the assets of that company with a net book value of \$4,107,624 to the University. The liability of \$4,369,651 owed to NEOMED was forgiven as part of this transaction.

Medical Office Building

The construction of the Medical Office Building on NEOMED's campus was completed in FY22 with the final build out and clinic opening 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 final total contributed by OFCC was \$11,702,572. 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. For the years ended June 30, 2023 and 2022, ERS MOB recognized earned rental income from BioMed in the amounts of \$467,563 and \$467,563, respectively. As of June 30, 2023, ERS MOB is carrying a liability of \$10,362,651 in unearned rental income. 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, and temporary financing of \$8,045,140 by NEOMED. 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.

ERS STRATEGIC PROPERTIES, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2023 AND JUNE 30, 2022

7. LEASES

ERS leases the Wellness Center and Medical Office building 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 41 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 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. AND SUBSIDIARIES
(A Component Unit of Northeast Ohio Medical University)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2023

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	Total
ASSETS						
Current assets						
Cash and equivalents	\$ 897,079	\$ 64,868	\$ -	\$ -	\$ -	\$ 961,947
Accounts receivable	25,088	-	-	-	-	25,088
Prepays	4,843	667	-	-	-	5,510
Total current assets	927,010	65,535	-	-	-	992,545
Noncurrent assets						
Property and equipment, net	-	59,419,842	449,837	-	21,006,751	80,876,430
Funds held by trustee	-	858,620	-	-	-	858,620
Total noncurrent assets	-	60,278,462	449,837	-	21,006,751	81,735,050
Total assets	<u>\$ 927,010</u>	<u>\$ 60,343,997</u>	<u>\$ 449,837</u>	<u>\$ -</u>	<u>\$ 21,006,751</u>	<u>\$ 82,727,595</u>
LIABILITIES AND DEFICIENCY IN NET ASSETS						
Current liabilities						
Accounts payable	15,241	-	-	-	-	15,241
Deposits	228,108	-	-	-	-	228,108
Deferred rental income	37,416	922,374	-	-	467,563	1,427,353
Accrued interest payable	-	233,373	-	-	-	233,373
Accrued liabilities	6,136	-	-	-	-	6,136
Related party payable	590,381	6,105	-	-	2,567	599,053
Bond payable - Current portion	-	1,921,715	-	-	-	1,921,715
Total current liabilities	877,282	3,083,567	-	-	470,130	4,430,979
Noncurrent liabilities						
Related party payable	788,711	2,695,665	992,996	100,378	7,279,571	11,857,321
Deferred rental income	-	-	-	-	9,895,088	9,895,088
Bond payable - net of debt issuance costs and current portion	-	67,866,266	-	-	-	67,866,266
Total noncurrent liabilities	788,711	70,561,931	992,996	100,378	17,174,659	89,618,675
Total liabilities	1,665,993	73,645,498	992,996	100,378	17,644,789	94,049,654
(Def) Surp in net assets - w/o donor restrictions	(738,983)	(13,301,501)	(543,159)	(100,378)	3,361,962	(11,322,059)
Total liabilities and deficiency in net assets	<u>\$ 927,010</u>	<u>\$ 60,343,997</u>	<u>\$ 449,837</u>	<u>\$ -</u>	<u>\$ 21,006,751</u>	<u>\$ 82,727,595</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, 2023

	ERS Housing, LLC	ERS HWMEC, LLC	ERS Contiguous Properties, LLC	ERS Strategic Properties, LLC	ERS MOB, LLC	Total
Revenue						
Rental revenue	\$ 3,223,812	\$ 5,599,789	\$ -	\$ -	\$ 1,524,852	\$ 10,348,453
Other revenue	19,602	-	-	-	-	19,602
Investment Income	5,345	25,455	-	-	-	30,800
Private donations	4,228,767	57,000	-	-	-	4,285,767
In-kind Support from Northeast Ohio Medical University	171,902	435,124	-	-	269,991	877,017
Total revenue	7,649,428	6,117,368	-	-	1,794,843	15,561,639
Expenses						
Payroll, benefits, and taxes	380,299	356,234	-	-	227,756	964,289
Management fees	111,837	-	-	-	-	111,837
Operating and administrative	21,332	9,006	-	-	4,402	34,740
Interior unit expenses	29,222	-	-	-	-	29,222
Common area expenses	243,068	-	9,148	-	-	252,216
Building maintenance	136,949	63,900	-	-	32,335	233,184
Professional fees	37,393	16,422	-	4,824	8,065	66,704
Marketing and advertising	1,549	-	-	-	-	1,549
Loss on disposal of asset	-	-	-	-	-	-
Debt Service	2,261,250	-	-	-	-	2,261,250
Depreciation	226,375	1,950,095	5,281	-	616,111	2,797,862
Interest expense	543,678	3,916,056	-	-	-	4,459,734
Total expenses	3,992,952	6,311,713	14,429	4,824	888,669	11,212,587
INCR (DECR) IN NET ASSETS W/O DONOR RESTRICTIONS	3,656,476	(194,345)	(14,429)	(4,824)	906,174	4,349,052
SURP (DEF) IN NET ASSETS AT BEGINNING OF YEAR	(4,395,459)	(13,107,156)	(528,730)	(95,554)	2,455,788	(15,671,111)
SURP (DEF) IN NET ASSETS AT END OF YEAR	\$ (738,983)	\$ (13,301,501)	\$ (543,159)	\$ (100,378)	\$ 3,361,962	\$ (11,322,059)

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 (*Government Auditing Standards*), 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 and for the year ended June 30, 2023, 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 10, 2023, wherein we noted that ERS Housing, LLC sold its buildings to Northeast Ohio Medical University in exchange for Northeast Ohio Medical University paying off ERS Housing, LLC’s debt.

Report on Internal Control Over Financial Reporting

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

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

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.
Independence, Ohio
October 10, 2023

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 11/21/2023

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