

Russ Research Center LLC
(an Ohio limited liability company and a
wholly owned subsidiary of Fritz J. and
Dolores H. Russ Holdings LLC)

Financial Report
June 30, 2017 and 2016



Dave Yost • Auditor of State

Board of Directors
OU Russ Research Center, LLC
2794 Indian Ripple Road
Beavercreek, Ohio 45140

We have reviewed the *Independent Auditor's Report* of the OU Russ Research Center, LLC, Athens County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2016 through June 30, 2017. 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 OU Russ Research Center, LLC is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 9, 2017

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Russ Research Center LLC

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Independent Auditor's Report

To the Board of Directors
Russ Research Center LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Russ Research Center LLC (the "Company"), an Ohio limited liability company and a wholly owned subsidiary of Fritz J. and Dolores H. Russ Holdings, LLC, which comprise the balance sheet as of June 30, 2017 and 2016 and the related statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Russ Research Center LLC as of June 30, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Russ Research Center LLC

Emphasis of Matter

As described in Note 5 to the financial statements, the lease agreement with a major tenant is expiring in March 2018 and is not expected to be renewed. Revenue from this tenant was \$434,403 and \$422,313 for the years ended June 30, 2017 and 2016, respectively. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017 on our consideration of Russ Research Center LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Russ Research Center LLC's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 28, 2017

Russ Research Center LLC

Balance Sheet

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Cash | \$ 188,759 | \$ 132,634 |
| Accounts receivable - Net | 42,926 | 268,238 |
| Prepaid insurance | 10,518 | 10,404 |
| Property and equipment - Less accumulated depreciation (Note 3) | <u>4,176,872</u> | <u>4,513,484</u> |
| Total assets | <u>\$ 4,419,075</u> | <u>\$ 4,924,760</u> |
| Liabilities and Member's Equity | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 259,181 | \$ 372,958 |
| Tenant security deposits | <u>37,219</u> | <u>49,959</u> |
| Total liabilities | 296,400 | 422,917 |
| Member's Equity | <u>4,122,675</u> | <u>4,501,843</u> |
| Total liabilities and member's equity | <u>\$ 4,419,075</u> | <u>\$ 4,924,760</u> |

Russ Research Center LLC

Statement of Operations

| | Year Ended | |
|--------------------------|----------------------|----------------------|
| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
| Revenue | | |
| Rental income | \$ 919,035 | \$ 1,616,508 |
| Interest income | 182 | 7,238 |
| Total revenue | 919,217 | 1,623,746 |
| Expenses | | |
| Real estate taxes | 109,533 | 110,849 |
| Security and inspections | 22,057 | 43,372 |
| Repairs and maintenance | 169,229 | 260,186 |
| Utilities | 81,683 | 211,143 |
| Professional fees | 85,785 | 131,575 |
| Administrative expenses | 43,435 | 61,592 |
| Depreciation expense | 336,612 | 339,839 |
| Bad debt expense | 82,636 | 24,300 |
| Management fees | 30,979 | 42,615 |
| Total expenses | 961,949 | 1,225,471 |
| Net (Loss) Income | \$ (42,732) | \$ 398,275 |

Russ Research Center LLC

Statement of Member's Equity

| | |
|--------------------------------|----------------------------|
| Balance - July 1, 2015 | \$ 6,323,125 |
| Net income | 398,275 |
| Member distributions | <u>(2,219,557)</u> |
| Balance - June 30, 2016 | 4,501,843 |
| Net loss | (42,732) |
| Member distributions | <u>(336,436)</u> |
| Balance - June 30, 2017 | <u>\$ 4,122,675</u> |

Russ Research Center LLC

Statement of Cash Flows

| | Year Ended | |
|--|--------------------------|--------------------------|
| | June 30, 2017 | June 30, 2016 |
| Cash Flows from Operating Activities | | |
| Net (loss) income | \$ (42,732) | \$ 398,275 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation | 336,612 | 339,839 |
| Bad debt expense | 82,636 | 24,300 |
| Changes in assets and liabilities that provided (used) cash: | | |
| Accounts receivable | 142,676 | (51,199) |
| Prepaid insurance | (114) | 1,324 |
| Accounts payable and accrued liabilities | (113,777) | 16,296 |
| Tenant security deposits | <u>(12,740)</u> | <u>(5,462)</u> |
| Net cash provided by operating activities | 392,561 | 723,373 |
| Cash Flows from Financing Activities - Member distributions paid | <u>(336,436)</u> | <u>(2,219,557)</u> |
| Net Increase (Decrease) in Cash | 56,125 | (1,496,184) |
| Cash - Beginning of year | <u>132,634</u> | <u>1,628,818</u> |
| Cash - End of year | <u>\$ 188,759</u> | <u>\$ 132,634</u> |

Russ Research Center LLC

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Entity

Russ Research Center LLC (the "Company") was organized as a limited liability company (LLC) on October 30, 2008 under the laws of the State of Ohio for the purpose of operating a research park, which consists of 10 office and research buildings located in Beavercreek, Ohio. The Company was created to accept the membership interest of an LLC that formerly held the land and buildings for the Russ Estate. The Company's sole member is Fritz J. and Dolores H. Russ Holdings LLC (Russ Holdings). Russ Holdings' sole member is the Ohio University Foundation (the "Foundation"). The Foundation's purpose is to support Ohio University, located in Athens, Ohio, its students, faculty, and staff and the educational programs designated for its students, potential students, and alumni.

Note 2 - Summary of Significant Accounting Policies

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification - The financial affairs of the Company generally do not involve a business cycle since the realization of assets and the liquidation of liabilities are usually dependent on the Company's circumstances. Accordingly, the classification of current assets and current liabilities is not considered appropriate and has been omitted from the balance sheet.

Cash - At times, cash may exceed federally insured amounts. As of June 30, 2017, there was no cash that was uninsured.

Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts was \$181,514 and \$180,700 as of June 30, 2017 and 2016, respectively.

Property and Equipment - Property additions are stated at cost. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Note 2 - Summary of Significant Accounting Policies (Continued)

Impairment of Long-lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, management evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2017 and 2016.

Recognition of Revenue - Rental income is recognized when rent becomes due over the terms of the tenant leases (ranging from one to five years). Rental payments received in advance of the rental income recognition are included in accounts payable and accrued liabilities, a liability in the accompanying balance sheet. Late fees are recognized when tenants fail to submit rental payments under the terms of the leases. Late fees and other miscellaneous fees such as month-to-month leasing agreements, rental of storage facilities, and reservation fees will be included in other operating income related to rental activity in the accompanying statement of operations.

Income Taxes - The Company is treated as a pass-through entity for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Company. The member is taxed individually on its pro-rata ownership share of the Company's earnings. The Company's net income or loss is allocated to the sole member in accordance with the Company's operating agreement. With few exceptions, the Company is no longer subject to tax examinations by tax authorities for years before June 30, 2014.

Upcoming Accounting Pronouncements - During May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in the ASU clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Company's primary revenue sources are not

Russ Research Center LLC

Notes to Financial Statements June 30, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

expected to be significantly impacted by the standard. In addition, management is currently analyzing the disclosures that will be required with this pronouncement. The Company will be required to adopt and implement this accounting update as of and for the year ending June 30, 2020.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU did not significantly change the accounting requirements for lessors, and accordingly, application of the new lease standard is not expected to have a significant effect on the Company's financial statements. The new lease guidance will be effective for the Company's year ending June 30, 2021.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 28, 2017, which is the date that the financial statements were available to be issued.

Note 3 - Property and Equipment

A summary of property and equipment at June 30 is as follows:

| | 2017 | 2016 | Depreciable Lives - Years |
|-------------------------------|---------------------|---------------------|------------------------------|
| Land | \$ 832,300 | \$ 832,300 | - |
| Buildings and improvements | 5,455,653 | 5,455,653 | 20 |
| Machinery and equipment | 202,427 | 202,427 | 7 |
| Tenant improvements | <u>191,437</u> | <u>191,437</u> | 5 |
| Total property | 6,681,817 | 6,681,817 | |
| Less accumulated depreciation | <u>2,504,945</u> | <u>2,168,333</u> | |
| Net property and equipment | <u>\$ 4,176,872</u> | <u>\$ 4,513,484</u> | |

Depreciation expense totaled \$336,612 and \$339,839 for the years ended June 30, 2017 and 2016, respectively. Substantially all of the land and buildings are for rent.

Russ Research Center LLC

Notes to Financial Statements June 30, 2017 and 2016

Note 4 - Rental Income

Minimum future rental income on tenant leases to be received in each of the next five years and thereafter is as follows:

| Years Ending June 30 | Rental Income |
|-------------------------|-------------------|
| 2018 | \$ 355,102 |
| 2019 | 51,874 |
| 2020 | - |
| 2021 | - |
| 2022 | - |
| Thereafter | - |
| Total | <u>\$ 406,976</u> |

Note 5 - Concentration of Business

Revenue in 2017 and 2016 from one tenant was approximately 60 percent and 39 percent of total revenue, respectively. The tenant's lease expires in March 2018 and the lease is not expected to be renewed.

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Russ Research Center LLC

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 financial statements of Russ Research Center LLC (the "Company"), which comprise the balance sheet as of June 30, 2017 and the related statements of operations, member's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Russ Research Center LLC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2017-001, that we consider to be a significant deficiency.

To Management and the Board of Directors
Russ Research Center LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russ Research Center LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Russ Research Center LLC's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Morse, PLLC

September 28, 2017

Russ Research Center LLC

Section II - Schedule of Findings and Responses Year Ended June 30, 2017

| Reference Number | Finding |
|------------------|---|
| 2017-001 | <p>Finding Type - Significant deficiency</p> <p>Criteria - The trial balance and supporting schedules should be adjusted as part of the closing process to ensure that the information presented is in accordance with generally accepted accounting principles (GAAP).</p> <p>Condition - The Company upgraded its information technology system during fiscal year 2017. During the audit, it was identified that revenue and member's capital were misstated by approximately \$53,000.</p> <p>Context - The issue was limited to the member's capital account and revenue balance as of June 30, 2017. Management recorded an adjusting journal entry to correct the amounts during the audit.</p> <p>Cause - The Company did not perform a thorough review of the balances transferred over to the new accounting system and did not identify and correct the variance within the beginning of the year member's capital account upon preparation of the year-end trial balance provided to the auditors.</p> <p>Effect - As a result of not performing this analysis, the member's capital balance was understated and the revenue balance was overstated.</p> <p>Recommendation - We suggest management perform a thorough review of account balances when transferring over data between the information technology systems. We also suggest reviewing all account balances including the equity accounts to ensure balances at year end are properly stated.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management believes that all accounts have been properly reconciled. A system has been put in place where all accounts transferred from the old IT system to the new have been double checked. Management does not anticipate engaging a new system anytime in the future.</p> |

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Dave Yost • Auditor of State

OHIO UNIVERSITY FOUNDATION – RUSS RESEARCH CENTER

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 21, 2017