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, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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Board of Directors
Russ Research Center LLC
1 Ohio University
Athens, Ohio 45701

We have reviewed the *Independent Auditor's Report* of the Russ Research Center LLC, Athens County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

November 14, 2019

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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, 2019 and 2018 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, 2019 and 2018 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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019 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

October 9, 2019

Balance Sheet

June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	$ 120,061	$ 66,831
Accounts receivable - Net	21,162	21,182
Prepaid expenses and other assets	68,882	74,353
Total current assets	210,105	162,366
Property and Equipment - Less accumulated depreciation (Note 3)	3,819,353	3,999,170
Total assets	**$ 4,029,458**	**$ 4,161,536**
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	$ 139,604	$ 207,759
Tenant security deposits	36,878	43,895
Accrued and other liabilities	144,862	182,053
Total liabilities	321,344	433,707
Member's Equity	3,708,114	3,727,829
Total liabilities and member's equity	**$ 4,029,458**	**$ 4,161,536**

Statement of Operations

Years Ended June 30, 2019 and 2018

	2019	2018
Revenue		
Rental income	$ 592,925	$ 711,854
Interest income	10	115
Total revenue	592,935	711,969
Expenses		
Real estate taxes	110,449	107,847
Security and inspections	39,902	37,815
Repairs and maintenance	203,487	153,850
Utilities	104,896	109,261
Professional fees	94,919	115,072
Administrative expenses	95,522	74,276
Depreciation expense	357,718	339,593
Management fees	39,375	52,500
Total expenses	1,046,268	990,214
Net Loss	**$ (453,333)**	**$ (278,245)**

See notes to financial statements.

Statement of Member's Equity

Years Ended June 30, 2019 and 2018

Balance - July 1, 2017	$	4,122,675
Net loss		(278,245)
Member distributions		(116,601)
Balance - June 30, 2018		3,727,829
Net loss		(453,333)
Member contributions		456,000
Member distributions		(22,382)
Balance - June 30, 2019	**$**	**3,708,114**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net loss	$ (453,333)	$ (278,245)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	357,718	339,593
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	11	21,744
Prepaid insurance	5,471	(63,835)
Accounts payable and accrued liabilities	(105,346)	130,631
Tenant security deposits	(7,017)	6,676
Net cash (used in) provided by operating activities	(202,496)	156,564
Cash Flows Used in Investing Activities - Purchase of property and equipment	(177,892)	(161,891)
Cash Flows from Financing Activities		
Member contributions	456,000	-
Member distributions paid	(22,382)	(116,601)
Net cash provided by (used in) financing activities	433,618	(116,601)
Net Increase (Decrease) in Cash	53,230	(121,928)
Cash - Beginning of year	66,831	188,759
Cash - End of year	**$ 120,061**	**$ 66,831**

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 - Significant Accounting Policies

Cash

At times, cash may exceed federally insured amounts. As of June 30, 2019 and 2018, 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 on accounts receivable balances was $0 and $181,514 as of June 30, 2019 and 2018, respectively. As of June 30, 2018, the $181,514 allowance for doubtful accounts related to rent charges that were owed by a tenant under the terms of an expired lease, but payable only if that tenant defaulted on a current lease on or before June 30, 2019. The tenant made all required payments on or before the respective due dates through June 30, 2019, and the allowance was reduced to $0.

Property and Equipment

Property and equipment are recorded 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.

Impairment or Disposal of Long-lived Assets

The Company reviews the recoverability of long-lived assets, including buildings and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations. In the opinion of management, no long-lived assets were impaired as of June 30, 2019 and 2018.

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 recorded as deferred revenue included in accrued and other current liabilities 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.

Note 2 - Significant Accounting Policies (Continued)

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 the years before June 30, 2016.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Company has not yet determined which application method it will use. The Company's primary revenue sources are not expected to be significantly impacted by the standard. In addition, management is currently analyzing the disclosures that will be required with this pronouncement.

The FASB 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 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 9, 2019, which is the date the financial statements were available to be issued.

Basis of Presentation

The financial statements of the Company have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

During fiscal years 2019 and 2018, leases with tenants responsible for a significant amount of revenue expired and were not renewed. The decrease in revenue resulted in net losses for the years ended June 30, 2019 and 2018. These factors raised substantial doubt about the Company's ability to continue as a going concern.

Excess cash was distributed to the Company's sole member during fiscal year 2018, but this did not occur during fiscal year 2019 due to the Company's low cash levels. Management acknowledged that, without remediation, the Company would be unable to meet its obligations.

Note 2 - Significant Accounting Policies (Continued)

Management is collaborating with various professional organizations in and around the Dayton/Beavercreek area to forge new and expanded research partnerships. These partnerships have resulted in new tenants being secured for the Company. Management anticipates these ongoing efforts will result in increased leasing activity in the coming fiscal year. The Company has completed a cash flow projection for fiscal year 2020. Management plans to request and receive excess cash funds from Russ Holdings and its sole member, as needed, which alleviates doubt about the Company’s ability to continue as a going concern.

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - 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	531,228	353,328	5
Total cost	7,021,608	6,843,708	
Accumulated depreciation	3,202,255	2,844,538	
Net property and equipment	$ 3,819,353	$ 3,999,170	

Depreciation expense for 2019 and 2018 was $357,718 and $339,593, respectively. Substantially all of the land and buildings are for rent.

Note 4 - Rental Income

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

Years Ending June 30	Rental Income
2020	$ 316,156
2021	254,158
2022	244,783
2023	136,644
2024	13,592
2025	2,275
Total	$ 967,608

Note 5 - Concentration of Business

Revenue in 2019 from four tenants was approximately 80 percent of total revenue, of which one tenant makes up 46 percent of total revenue. The tenant's lease expires in December 2022. Revenue in 2018 from two tenants was approximately 84 percent of total revenue, of which one tenant made up 50 percent of total revenue.

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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 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"), 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, 2019 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 October 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an 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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2019-01 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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.*

The Company's Response to Finding

The Company's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Company'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.

To Management and the Board of Directors
Russ Research Center LLC

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 & Moran, PLLC

October 9, 2019

Schedule of Findings and Responses

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Schedule of Findings and Responses

Year Ended June 30, 2019

Reference Number	Finding
2019-01	**Finding Type** - Material weakness

Criteria - Controls should be in place to ensure that an individual who has access to the bank account cannot initiate and approve his/her own transfers. In addition, there should be monthly review of cash reconciliations by an individual who does not have access to cash receipts, disbursements, or journal entry functions. Users on company bank accounts should only include individuals who are approved to have access.

Condition - One individual prepares the bank reconciliations and has access to cash receipts, disbursements, and journal entry functions. Dual approvals for transfers outside of the Company's bank accounts are not in place. Also, the management company CFO was terminated during the fiscal year, but still remained an active user with the Company's main bank account.

Context - The issue is limited to the bank accounts and procedures related to the cash accounting functions completed by the prior management company, which managed the Company until March 31, 2019.

Cause - The management company has not taken appropriate steps to ensure that there is adequate segregation of duties for cash functions. Moreover, the Company does not have a process in place to review user access to bank accounts.

Effect - As a result of the lack of controls, there is a risk of misappropriation of assets and unauthorized users having access to cash accounts.

Recommendation - We recommend the Company implement internal controls around the cash cycle, including reviews of bank reconciliations, procedures for user access reviews, and dual approvals for all transfers.

Views of Responsible Officials and Planned Corrective Actions - The identified issues have been corrected for the Company beginning on April 1, 2019 when The Ohio University Foundation took over the accounting functions from the prior management company.

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OHIO AUDITOR OF STATE
KEITH FABER

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
DECEMBER 3, 2019