# 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, 2018**

# Dave Yost • Auditor of State

Board of Directors
Russ Research Center LLC
2790 Indian Ripple Road
Beavercreek, Ohio 45440

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, 2017 through June 30, 2018. 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.

Dave Yost
Auditor of State

November 13, 2018

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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, 2018 and 2017 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, 2018 and 2017 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.

### *Emphasis of Matter*

As described in Note 5 to the financial statements, the lease agreement with a major tenant is expiring in June 2019 and is not expected to be renewed. Revenue from this tenant was $327,870 and $434,403 for the years ended June 30, 2018 and 2017, respectively. Our opinion is not modified with respect to this matter.

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 September 28, 2018 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, 2018

# Balance Sheet

**June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 66,831 | $ 188,759 |
| Accounts receivable - Net | 21,182 | 42,926 |
| **Prepaid Expenses and Other Assets** | 74,353 | 10,518 |
| **Property and Equipment** - Less accumulated depreciation (Note 3) | 3,999,170 | 4,176,872 |
| Total assets | **$ 4,161,536** | **$ 4,419,075** |
| **Liabilities and Member's Equity** | | |
| **Liabilities** | | |
| Accounts payable | $ 207,759 | $ 95,717 |
| Tenant security deposits | 43,895 | 37,219 |
| Accrued and other current liabilities | 182,053 | 163,464 |
| Total liabilities | 433,707 | 296,400 |
| **Member's Equity** | 3,727,829 | 4,122,675 |
| Total liabilities and member's equity | **$ 4,161,536** | **$ 4,419,075** |

# Statement of Operations

**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Revenue** | | |
| Rental income | $ 711,854 | $ 919,035 |
| Interest income | 115 | 182 |
| Total revenue | 711,969 | 919,217 |
| **Expenses** | | |
| Real estate taxes | 107,847 | 109,533 |
| Security and inspections | 37,815 | 22,057 |
| Repairs and maintenance | 153,850 | 169,229 |
| Utilities | 109,261 | 81,683 |
| Professional fees | 115,072 | 85,785 |
| Administrative expenses | 74,276 | 43,435 |
| Depreciation expense | 339,593 | 336,612 |
| Bad debt expense | - | 82,636 |
| Management fees | 52,500 | 30,979 |
| Total expenses | 990,214 | 961,949 |
| **Net Loss** | **$ (278,245)** | **$ (42,732)** |

# Statement of Member's Equity

**Years Ended June 30, 2018 and 2017**

| | |
|---|---|
| **Balance** - July 1, 2016 | $ 4,501,843 |
| Net loss | (42,732) |
| Member distributions | (336,436) |
| **Balance** - June 30, 2017 | 4,122,675 |
| Net loss | (278,245) |
| Member distributions | (116,601) |
| **Balance** - June 30, 2018 | **$ 3,727,829** |

# Statement of Cash Flows

**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net loss | $ (278,245) | $ (42,732) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 339,593 | 336,612 |
| Bad debt expense | - | 82,636 |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Accounts receivable | 21,744 | 142,676 |
| Prepaid insurance | (63,835) | (114) |
| Accounts payable and accrued liabilities | 130,631 | (113,777) |
| Tenant security deposits | 6,676 | (12,740) |
| Net cash provided by operating activities | 156,564 | 392,561 |
| **Cash Flows Used in Investing Activities** - Purchase of property and equipment | (161,891) | - |
| **Cash Flows Used in Financing Activities** - Member distributions paid | (116,601) | (336,436) |
| **Net (Decrease) Increase in Cash** | (121,928) | 56,125 |
| **Cash** - Beginning of year | 188,759 | 132,634 |
| **Cash** - End of year | **$ 66,831** | **$ 188,759** |

## 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

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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, 2018 and 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 on accounts receivable balances was $181,514 as of June 30, 2018 and 2017, respectively.

### *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, 2018 and 2017.

## Note 2 - Significant Accounting Policies (Continued)

***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.

***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. Members are taxed individually on their pro rata ownership share of the Company’s earnings. The Company’s net income or loss is allocated among the members in accordance with the Company’s operating agreement. 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, 2015.

***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 to be applied 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 September 28, 2018, 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.

## Note 2 - Significant Accounting Policies (Continued)

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

During fiscal 2018 and 2017, 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, 2018 and 2017. 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 2018 and 2017. Management acknowledged that, without remediation, the Company would be unable to meet its obligations.

Management is collaborating with various professional organizations in and around the Dayton/Beavercreek area to forge new and expanded research partnerships. These partnerships have already resulted in new tenants being secured for the Center. Management anticipates these efforts will result in increased leasing activity in the coming fiscal year. The Company has completed a cash flow projection for fiscal 2019. Management plans to request and receive excess cash funds from Russ Holdings, as needed, which alleviates doubt about Company’s ability to continue as a going concern.

## Note 3 - Property and Equipment

Property and equipment are summarized as follows:

| | 2018 | 2017 | 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 | 353,328 | 191,437 | 5 |
| Total cost | 6,843,708 | 6,681,817 | |
| Accumulated depreciation | 2,844,538 | 2,504,945 | |
| Net property and equipment | $ 3,999,170 | $ 4,176,872 | |

Depreciation expense for 2018 and 2017 was $339,593 and $336,612, 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 five years is as follows:

| Years Ending June 30 | Rental Income |
|---|---|
| 2019 | $ 301,180 |
| 2020 | 235,769 |
| 2021 | 233,560 |
| 2022 | 225,152 |
| 2023 | 108,311 |
| Total | $ 1,103,972 |

## Note 5 - Concentration of Business

Revenue in 2018 from two tenants was approximately 84 percent of total revenue, of which one tenant makes up 50 percent of total revenue. The tenant's lease expires in June 2019, and the lease is not expected to be renewed. Revenue in 2017 from one tenant was approximately 60 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"), which comprise the balance sheet as of June 30, 2018 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, 2018.

**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 deficiencies, described in the accompanying schedule of findings and responses as Findings 2018-01 and 2018-02, to be material weaknesses.

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 certain deficiencies in internal control that we consider to be material weaknesses.

**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 Findings**

The Company's response to the findings identified in our audit are 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

September 28, 2018

# Schedule of Findings and Responses

**Year Ended June 30, 2018**

| Reference Number | Finding |
|---|---|
| 2018-01 | **Finding Type** - Material weakness |

**Criteria** - Controls should be in place to ensure that an individual who has access to the bank cannot initiate and approve their 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.

**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.

**Context** - The issue is limited to the bank accounts and procedures related to the cash accounting functions.

**Cause** - The management company was without a CFO from January 2018 to June 2018, and no secondary review was put in place during this time period to ensure appropriate segregation of duties.

**Effect** - As a result of the lack of controls, there is a risk of misappropriation of assets.

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

**Views of Responsible Officials and Planned Corrective Actions** - The management company's newly hired chief financial officer currently reviews all bank reconciliations and approves outgoing wires. In addition, the management company will provide the Foundation with monthly disbursement ledgers, bank statements, and bank reconciliations for review and approval.

| Reference Number | Finding |
|---|---|
| 2018-02 | **Finding Type** - Material weakness |

**Criteria** - The books should be formally closed, and all trial balance accounts should be reviewed prior to finalizing the financial statements.

**Condition** - We noted during our audit that there were various accounts on the trial balance that were not reviewed and, therefore, needed to be adjusted to ensure balances were correct based on supporting documentation provided.

**Context** - The audit adjustments related to the following:

Broker commissions were recorded as an expense for the year rather than being recorded as an asset account and amortized based on the useful life of the lease.

Tenants performed repairs on their spaces and invoiced Russ Holdings at a later time for reimbursement. The invoices from the tenants were received a few months after the start of the lease, and the service date was not adjusted appropriately. This also resulted in an understatement of depreciation expense due to the delayed service date.

During review of accounts receivable balances, we noted a tenant had temporarily moved to a new space, and the tenant's rent should have been decreased accordingly. The rent amount was not adjusted on the accounts receivable aging, and the tenant was not invoiced for the proper amount, resulting in the tenant withholding payment. Accounts receivable and revenue were overstated.

**Cause** - The management company was without a CFO from January 2018 to June 2018, and no secondary review was put in place during this time period to ensure account balances were appropriately supported.

**Effect** - As a result of the lack of review procedures in place throughout the year, various accounts were misstated in an amount significant enough to require audit adjustments.

**Recommendation** - We suggest management perform a thorough review of account balances throughout the year and at year end to ensure account balances are properly supported with documentation.

**Views of Responsible Officials and Planned Corrective Actions** - The management company's newly hired Chief Financial Officer performs monthly reviews of the general ledger. In addition, the management company will provide monthly reports, including the balance sheet, income statement, budget-to-actual report, and trial balances, to the Foundation for review and approval.

# 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 27, 2018**

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