
Russ Research Center LLC

(an Ohio not-for-profit limited liability company and a wholly owned subsidiary of
Fritz J. and Dolores H. Russ Holdings LLC)

Annual Financial Report

June 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Board of Directors
Russ Research Center LLC
West Union Street Office Center
1 Ohio University
Athens, Ohio 45701

We have reviewed the *Independent Auditor's Report* of the Russ Research Center LLC, Athens County, prepared by Crowe LLP, for the audit period July 1, 2019 through June 30, 2020. 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.

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

Keith Faber
Auditor of State
Columbus, Ohio

November 18, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Russ Research Center LLC
Athens, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Russ Research Center LLC (the "Center"), a wholly-owned subsidiary of Fritz J. and Dolores H. Russ Holdings, LLC, which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

(Continued)

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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Center has adopted Accounting Standards Update 2018-08 - *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Center has changed its method of accounting to not-for-profit accounting principles. 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 October 15, 2020 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Center's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Columbus, Ohio
October 15, 2020

Statement of Financial Position

June 30, 2020

	<u>2020</u>
Assets	
Cash	\$ 146,036
Accounts receivable - net	22,801
Prepaid expenses	35,605
Property and equipment - net	3,515,043
Total assets	<u>\$ 3,719,485</u>
Liabilities and net assets	
Liabilities	
Accounts payable:	
Ohio University	\$ 64,223
Trade and other	30,889
Deferred income	71,389
Tenant security deposits	9,286
Other liabilities	123,239
Total liabilities	<u>299,026</u>
Net assets	
Without donor restrictions	<u>3,420,459</u>
Total net assets	<u>3,420,459</u>
Total liabilities and net assets	<u>\$ 3,719,485</u>

Statement of Activities

Year Ended June 30, 2020

	<u>2020</u>
Change in net assets without donor restrictions:	
Revenues and gains:	
Contributed services	\$ 304,255
Rental income	543,592
Total revenues without donor restrictions	<u>847,847</u>
Expenses	
Real estate taxes	130,246
Security and inspections	25,076
Repairs and maintenance	65,591
Utilities	135,802
Professional fees	35,846
Administrative expenses	60,475
Depreciation expense	378,211
Management fees	304,255
Total expenses	<u>1,135,502</u>
Change in net assets without donor restrictions	<u>(287,655)</u>
Net assets - beginning of year	<u>3,708,114</u>
Net assets - end of year	<u><u>\$ 3,420,459</u></u>

Statement of Cash FlowsYears Ended June 30, 2020

	<u>2020</u>
Cash Flows from Operating Activities	
Change in net assets	\$ (287,655)
Adjustments to reconcile changes in net assets to net cash from operating activities:	
Depreciation	378,211
Change in operating assets and liabilities:	
Increase in accounts receivable	(1,639)
Decrease in prepaid expenses	33,278
Decrease in accounts payable	(44,492)
Increase in deferred income	35,751
Decrease in tenant security deposits	(27,593)
Increase in other liabilities	14,015
Net cash provided by operating activities	<u>99,876</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(73,901)</u>
Net cash used in investing activities	<u>(73,901)</u>
Net Increase in Cash	25,975
Cash - Beginning of year	<u>120,061</u>
Cash - End of year	<u>\$ 146,036</u>

See notes to financial statements.

Notes to Financial Statements

June 30, 2020

Note 1 – Nature of Entity

Russ Research Center LLC (the "Center") 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 and related land located in Beavercreek, Ohio. The Center was created to accept the membership interest of an LLC that formerly held the land and buildings for the Russ Estate. The Center'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 (the "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

Change in Accounting Principle

During the year ended June 30, 2020, the Center's Board of Directors determined that it was in the best interest of the Center to amend its articles of organization and convert the Center from an Ohio for-profit limited liability company to a not-for-profit limited liability company. To that end, a certificate of amendment of the Center's articles of organization was filed with and approved by the Ohio Secretary of State on April 20, 2020.

The accompanying financial statements provide a single-year presentation of the year ended June 30, 2020 using accounting principles that apply to not-for-profit entities. The Center's financial statements for the year ended June 30, 2019 were not converted to the not-for-profit format because not-for-profit accounting principles did not apply to the Center at that time.

The change in accounting principle did not result in any adjustment to the valuation of the Center's assets or liabilities, nor did it result in any change to the valuation of the Center's net assets, as of the beginning of the fiscal year ended June 30, 2020.

Basis of Accounting and Presentation

The financial statements of the Center 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.

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

Financial statements of not-for-profit organizations measure aggregate net assets and net asset activity based on the absence or existence of donor-imposed restrictions. Brief definitions of the two net asset classes are presented below:

Net Assets Without Donor Restrictions – Net assets derived from gifts and other resources that are not subject to explicit donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets that are subject to explicit donor-imposed restrictions on the expenditure of contributions or income and gains on contributed assets. The Center records as net assets with donor restrictions the original amount of gifts and grants which donors and grantors have given to be used for a specific purpose. When time and purpose restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions. As of June 30, 2020, the Center did not have any net assets with donor restrictions.

Measure of Operations – The Center’s measure of operations as presented in the statement activities includes revenue from contributed services and rental income. Operating expenses are reported on the statement of activities by natural classification.

Liquidity – The Center’s financial assets available within one year of the balance sheet date for expenditures as of June 30, 2020 are as follows:

	2020
Total assets, at year end	<u>\$ 3,719,485</u>
Less nonfinancial assets:	
Prepaid expenses	35,605
Property and equipment - net	<u>3,515,043</u>
Financial assets, at year end, available to meet cash needs for general expenditures	<u><u>\$ 168,837</u></u>

The Center has \$168,837 of financial assets that are available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$146,036 and accounts receivable of \$22,801. In addition to these available financial assets, a significant portion of the Center’s annual expenditures will be funded by current year operating revenues, including rental income and contributed services. Also, management plans to request and receive excess cash funds from Russ Holdings and its sole member, as

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

needed, if the Center's cash balances are insufficient to fund tenant improvement and deferred maintenance projects.

Cash

At times, cash may exceed federally insured amounts. As of June 30, 2020, 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 as of June 30, 2020.

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation. The Center's asset capitalization threshold is \$0 for land and \$2,500 for other property and equipment. Assets are depreciated over their estimated useful lives. Costs of maintenance and repairs, and asset costs that do not meet the asset capitalization threshold, are charged to expense when incurred.

Impairment or Disposal of Long-lived Assets

The Center 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, 2020.

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

Recognition of Revenue

Contributions are recorded at their fair value on the date of receipt. All contributions are considered to be without donor restrictions unless specifically restricted by the donor.

Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as revenue with donor restrictions. When a donor restriction expires (when a stipulated time restriction ends or the purpose of restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional contributions received are recorded as deferred income in the accompanying statement of financial position, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

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 income in the accompanying statement of financial position. Late fees are recognized when tenants fail to submit rental payments under the terms of the leases.

As of June 30, 2020, deferred income included \$54,315 of conditional contributions related to an economic development grant and \$17,074 of rental payments received in advance of the rental income recognition.

Income Taxes

The Center is treated as a pass-through entity for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by the Center. With few exceptions, the Center is no longer subject to tax examinations by tax authorities for the years before June 30, 2017.

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

Recently Adopted Accounting Guidance

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Center adopted ASU 2018-08 using the modified retrospective approach and there was no material impact on the financial statements or footnote disclosures.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued 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 Center's year ending June 30, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Center has not yet determined which application method it will use. The Center'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 Center's financial statements. The new lease guidance will be effective for the Center's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented.

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 15, 2020, which is the date the financial statements were available to be issued.

During December 2019, the Novel Coronavirus (COVID-19) was discovered in the country of China and has since spread to other countries, including the U.S. The COVID-19 was subsequently declared a world-wide pandemic by the World Health Organization. On March 13, 2020, the President declared a National Emergency Concerning the COVID-19 outbreak. The Center anticipates an economic impact resulting from the effects of the COVID-19 outbreak on the national, state, and local economies. The Center has currently not determined what material impact this outbreak could potentially have on revenues such as rental income revenues related to economic conditions.

Going Concern

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

In recent fiscal years, leases with tenants responsible for a significant amount of revenue expired and were not renewed. The decrease in revenue resulted in a net loss for the year ended June 30, 2020. These factors have raised substantial doubt about the Center's ability to continue as a going concern.

Due to the Center's low cash levels, management acknowledged that, without remediation, the Center 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 resulted in new tenants being secured for the Center in noncancelable leases. Management anticipates these ongoing efforts will result in increased leasing activity in the coming fiscal year.

Notes to Financial Statements

June 30, 2020

Note 2 – Significant Accounting Policies (Continued)

While current cash levels and anticipated rental receipts are deemed sufficient to cover the Center's recurring operational costs, the Center lacks sufficient resources to fund deferred maintenance and tenant improvement projects that will be necessary to attract additional tenants and strategic partners. To that end, in September 2020, the Foundation's Board of Trustees adopted a resolution approving the use of up to \$3,000,000 in support of tenant improvement and deferred maintenance projects that have been approved by the Center's Board of Directors. This alleviates doubt about the Center's ability to continue as a going concern.

Note 3 – Property and Equipment

Property and equipment are summarized as follows:

	2020	Depreciable Life - Years
Land	\$ 832,300	-
Buildings and improvements	5,476,858	20
Machinery and equipment	255,125	5-10
Tenant improvements	531,227	2-5
Total cost	<u>7,095,510</u>	
Accumulated depreciation	<u>3,580,467</u>	
Net property and equipment	<u>\$ 3,515,043</u>	

Depreciation expense for 2020 was \$378,211. Substantially all of the land and buildings are for rent.

Notes to Financial Statements

June 30, 2020

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
2021	\$ 398,860
2022	356,167
2023	213,420
2024	48,680
2025	2,275
Total	<u>\$ 1,019,402</u>

Note 5 – Concentration of Business

Revenue in 2020 from four tenants was approximately 79 percent of total revenue, of which one tenant makes up 42 percent of total revenue. The tenant's lease expires in December 2022.

Note 6 – Net Assets

The Center's net assets, as of June 30, 2020, include:

	2020
Without Donor Restrictions:	
Property and equipment - net	\$ 3,515,043
Undesignated	(94,584)
Net assets without donor restrictions	3,420,459
Total net assets	\$ 3,420,459

Notes to Financial Statements

June 30, 2020

Note 7 – Functional and Natural Classification of Expenses

All of the expenses reported on the statement of activities for the year ended June 30, 2020 are attributable to the Center's management and general support function. The Center's primary programmatic function involves the distribution of cash to the Foundation for the benefit of the University's Russ College of Engineering and Technology. Due to low occupancy levels and limited cash available at the Center, no programmatic distributions were made during the year ended June 30, 2020.

Note 8 – Support from Related Organizations

During 2020, the University and Foundation paid certain payroll costs amounting to \$304,255 for the Center's property management and accounting offices. The support costs paid by the University and Foundation are reflected in the statement of activities as contributed services, with a like amount included in expenses.

The University provides office space and the use of certain common facilities and services to the Center at no cost. These costs have not been recorded because they are not considered to be significant to the results of activities of the Center.

The University processes expenses on behalf of the Center during the year for operations including utilities, insurance, attorney fees and office supplies. The Center reimburses the University for these expenses. During the fiscal year ended June 30, 2020, the Center paid the University \$543,548 for these items and had a payable of \$64,223 outstanding.



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
Russ Research Center LLC
Athens, Ohio

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, a wholly-owned subsidiary of Fritz J. and Dolores H. Russ Holdings LLC, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2020.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Russ Research Center LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Russ Research Center LLC's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russ Research Center LLC's financial statements are free of 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 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 over financial reporting 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.


Crowe LLP

Columbus, Ohio
October 15, 2020

OHIO AUDITOR OF STATE KEITH FABER



OHIO UNIVERSITY FOUNDATION- RUSS RESEARCH CENTER

ATHENS 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 12/1/2020

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