

Inn-Ohio of Athens, Inc.

Financial Report

July 2, 2010 and July 3, 2009

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Mary Taylor, CPA
Auditor of State

Board of Directors
Inn-Ohio of Athens, Inc.
204 HDL Center
Athens, Ohio 45701

We have reviewed the *Independent Auditor's Report* of the Inn-Ohio of Athens, Inc., Athens County, prepared by Plante & Moran, PLLC, for the audit period July 4, 2009 through July 2, 2010. 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 Inn-Ohio of Athens, Inc. is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 30, 2009

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Inn-Ohio of Athens, Inc.

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Independent Auditor's Report

To the Board of Directors
Inn-Ohio of Athens, Inc.

We have audited the accompanying balance sheet of Inn-Ohio of Athens, Inc. (the "Company") as of July 2, 2010 and July 3, 2009 and the related statements of operations, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 2, 2010 and July 3, 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

October 1, 2010

Inn-Ohio of Athens, Inc.

Balance Sheet

	<u>July 2, 2010</u>	<u>July 3, 2009</u>
Assets		
Current Assets		
Cash	\$ 745,735	\$ 706,530
Investments	1,111,195	987,556
Accounts receivable - Net of allowance for doubtful accounts of \$6,000 as of July 2, 2010 and \$14,000 as of July 3, 2009	72,361	38,566
Inventories	35,669	24,533
Prepaid expenses and other assets	15,207	12,007
Prepaid income taxes	13,500	13,500
Deferred income tax asset (Note 7)	22,209	30,895
Total current assets	2,015,876	1,813,587
Property and Equipment - At cost		
Land	197,300	197,300
Land improvements	683,258	661,503
Buildings	6,801,051	6,788,683
Furnishings, fixtures, and equipment	3,436,700	3,266,912
Construction in progress	-	4,390
Total property and equipment	11,118,309	10,918,788
Less accumulated depreciation and amortization	<u>(6,282,829)</u>	<u>(5,862,162)</u>
Net property and equipment	4,835,480	5,056,626
Other Assets - Bond issuance costs - Net of accumulated amortization		
	<u>23,779</u>	<u>25,876</u>
Total assets	<u>\$ 6,875,135</u>	<u>\$ 6,896,089</u>

Inn-Ohio of Athens, Inc.

Balance Sheet (Continued)

	<u>July 2, 2010</u>	<u>July 3, 2009</u>
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 520,316	\$ 471,476
Current portion of long-term debt (Note 4)	<u>213,800</u>	<u>201,000</u>
Total current liabilities	734,116	672,476
Deferred Income Tax Liability (Note 7)	101,124	97,013
Long-term Debt - Net of current portion (Note 4)	<u>3,051,800</u>	<u>3,265,600</u>
Total liabilities	3,887,040	4,035,089
Stockholder's Equity		
Common stock, no par value, stated value \$10,000 per share, authorized 750 shares, 342.9182 shares issued and outstanding	3,429,182	3,429,182
Contributed capital	4,140,455	4,140,455
Accumulated other comprehensive income (loss)	48,975	(13,943)
Accumulated deficit	<u>(4,630,517)</u>	<u>(4,694,694)</u>
Total stockholder's equity	<u>2,988,095</u>	<u>2,861,000</u>
Total liabilities and stockholder's equity	<u>\$ 6,875,135</u>	<u>\$ 6,896,089</u>

Inn-Ohio of Athens, Inc.

Statement of Operations

	Year Ended	
	July 2, 2010	July 3, 2009
Revenue		
Room	\$ 2,759,924	\$ 2,663,416
Restaurant	1,136,198	1,206,964
Beverage	237,738	232,550
Telephone	5,019	7,624
Total revenue	4,138,879	4,110,554
Operating Expenses		
Room	583,793	542,003
Restaurant	973,677	981,984
Beverage	107,097	113,416
Telephone	42,966	40,081
Total operating expenses	1,707,533	1,677,484
Income Before General and Unapportioned Expenses	2,431,346	2,433,070
General and Unapportioned Expenses		
Administrative and general	456,631	481,160
Repair and maintenance	405,965	413,738
Taxes, insurance, and other	206,872	193,635
Marketing	218,955	212,619
Management fees (Note 6)	180,353	174,656
Utilities	167,850	171,086
Total general and unapportioned expenses	1,636,626	1,646,894
Capital Expenses		
Interest - Net of other income of \$60,967 and \$59,210 during 2010 and 2009, respectively	147,795	161,635
Depreciation and amortization	558,022	530,262
Total capital expenses	705,817	691,897
Income Before Provision for Income Taxes	88,903	94,279
Provision for Income Taxes (Note 7)	22,226	32,052
Net Income	<u>\$ 66,677</u>	<u>\$ 62,227</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

Inn-Ohio of Athens, Inc.

Statement of Stockholder's Equity

	Comprehensive Income (Loss)	Common Stockholder Stated Value - \$10,000 Per Share	Contributed Capital	Accumulated Comprehensive (Loss) Gain	Accumulated Deficit	Total Stockholder's Equity
Balance - June 27, 2008		\$ 3,429,182	\$ 4,140,455	\$ (22,842)	\$ (4,756,921)	\$ 2,789,874
Unrealized appreciation on investments	8,899	-	-	8,899	-	8,899
Net income	<u>62,227</u>	-	-	-	<u>62,227</u>	<u>62,227</u>
Comprehensive income	<u>\$ 71,126</u>					
Balance - July 3, 2009		3,429,182	4,140,455	(13,943)	(4,694,694)	2,861,000
Unrealized appreciation on investments	62,918	-	-	62,918	-	62,918
Distributions	-	-	-	-	(2,500)	(2,500)
Net income	<u>66,677</u>	-	-	-	<u>66,677</u>	<u>66,677</u>
Comprehensive income	<u>\$ 129,595</u>					
Balance - July 2, 2010		<u>\$ 3,429,182</u>	<u>\$ 4,140,455</u>	<u>\$ 48,975</u>	<u>\$ (4,630,517)</u>	<u>\$ 2,988,095</u>

The Notes to the Financial Statements are
an Integral Part of this Statement.

Inn-Ohio of Athens, Inc.

Statement of Cash Flows

	Year Ended	
	July 2, 2010	July 3, 2009
Cash Flows from Operating Activities		
Net income	\$ 66,677	\$ 62,227
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	558,022	530,262
Deferred income taxes	22,226	32,052
Changes in assets and liabilities:		
Accounts receivable	(33,795)	48,204
Inventories	(11,136)	6,208
Prepaid expenses and other assets	5,486	4,804
Accounts payable and accrued liabilities	65,751	(41,087)
Net cash provided by operating activities	673,231	642,670
Cash Flows from Investing Activities		
Acquisition of property and equipment	(334,777)	(221,702)
Purchases of investment	(95,749)	(56,625)
Net cash used in investing activities	(430,526)	(278,327)
Cash Flows from Financing Activities		
Payments of long-term debt	(201,000)	(188,900)
Payments of distributions to stockholders	(2,500)	-
Net cash used in financing activities	(203,500)	(188,900)
Net Increase in Cash	39,205	175,443
Cash - Beginning of year	706,530	531,087
Cash - End of year	<u>\$ 745,735</u>	<u>\$ 706,530</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 148,315	\$ 162,122
Unrealized appreciation on investments	62,918	8,899

Inn-Ohio of Athens, Inc.

Notes to Financial Statements July 2, 2010 and July 3, 2009

Note 1 - Organization

Inn-Ohio of Athens, Inc. (the "Company") was incorporated in Ohio on September 10, 1986 to acquire and operate an 87-room hotel and restaurant facility in Athens, Ohio known as The Ohio University Inn. An additional wing with 61 rooms was added to the hotel and placed in service in October 1989. The inn currently has 139 rooms in service. The Company is a wholly owned subsidiary of The Ohio University Foundation (the "Stockholder").

Note 2 - Summary of Significant Accounting Policies

Method of Accounting - The Company maintains its books and records in accordance with accounting principles generally accepted in the United States of America.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs - Advertising costs are included in marketing expenses on the statement of operations and are expensed as incurred. These costs for the years ended July 2, 2010 and July 3, 2009 were approximately \$81,000 and \$79,000, respectively.

Investments - Investments consist of fixed-income mutual funds. These securities are valued at market and are classified as available for sale as they are to be held for an indefinite period of time. Unrealized holding gains of approximately \$63,000 and \$8,900 for the years ended July 2, 2010 and July 3, 2009, respectively, are reported in other comprehensive income and are included as a component of stockholder's equity. Realized losses and gains for the years ended July 2, 2010 and July 3, 2009, respectively, were nominal.

Accounts Receivable - Accounts receivable consist of customers or businesses who have incurred charges at the facility. These customers' accounts have been preapproved for a direct billing from the facility based on a complete credit application. Collection of the accounts receivable balances is performed at the facility and all amounts are deposited daily. In the normal course of business, the Company leases facilities to The Ohio University, a related party, and its affiliates.

Inn-Ohio of Athens, Inc.

Notes to Financial Statements July 2, 2010 and July 3, 2009

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts receivable include amounts due from The Ohio University and its related programs, departments, and affiliates of approximately \$26,000 and \$6,000 as of July 2, 2010 and July 3, 2009, respectively. Accounts receivable are stated at invoiced amounts.

An allowance for doubtful accounts is recognized based on a specific assessment of all invoices that remain unpaid. The allowance is determined based on management's estimate of the amounts recoverable from each customer.

Inventories - Inventories consist of food and beverage products and gift shop items which are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation and amortization. Costs of normal repairs and maintenance and minor renewals are charged to expense. Major expenditures, which extend the useful lives of assets, are capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the property and equipment. The estimated useful lives are as follows:

Land improvements	5-15 years
Buildings	30-40 years
Furnishings, fixtures, and equipment	3-10 years

Depreciation expense for the years ended July 2, 2010 and July 3, 2009 totaled \$555,923 and \$528,163, respectively. The Company periodically reviews the carrying value of its property and equipment and determines whether any impairment needs to be recorded. As of July 2, 2010 and July 3, 2009, the Company is of the opinion there is no impairment of property and equipment.

Bond Issuance Costs - Bond issuance costs are amortized using the straight-line method (which approximates the effective interest method) over the life of the related debt. Amortization expense was approximately \$2,100 for each of the years ended July 2, 2010 and July 3, 2009.

Recognition of Revenue - Revenue is recognized from its room, restaurant, beverage, and telephone facilities and services as earned on the close of business each day. The majority of the Company's business is derived from The Ohio University and its related programs, departments, and affiliates.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

The Company adopted new accounting guidance related to accounting for income taxes as of June 28, 2008. The new accounting standard clarifies the guidance for the recognition and measurement of income tax benefits related to uncertain tax positions. The adoption of the new guidance did not have a material impact on the financial statements.

As of July 2, 2010 and July 3, 2009, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized during the year or accrued at year end. The Company files income tax returns in the U.S. federal and various state jurisdictions.

Fiscal Year - The Company's fiscal year included 52 weeks for 2010 and 53 weeks for 2009.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 1, 2010, which is the date the financial statements were available to be issued.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Inn-Ohio of Athens, Inc.

Notes to Financial Statements July 2, 2010 and July 3, 2009

Note 3 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Company measures investments at fair value on a recurring basis. The fair value of the Company's investments at July 2, 2010 and July 3, 2009 total \$1,111,195 and \$987,556, respectively, and are based primarily on Level 2 inputs as described above.

Investments in Entities that Calculate Net Asset Value per Share

The Company holds shares or interests in JPMorgan Core Bond Trust, an investment company, at year end. The fair value of the investment was \$1,111,195 and \$987,556 at June 30, 2010 and June 30, 2009, respectively. The fair value was estimated based on the net asset value per share of \$10.47 and \$9.86 times the number of shares owned by the Company at July 2, 2010 and July 3, 2009, respectively.

Investee management pursues multiple strategies to diversify risks and reduce volatility. The investment company's composite portfolio for this includes investments in approximately 52 percent mortgage-based securities, 22 percent U.S. treasury obligations, 16 percent corporate bonds, and 10 percent other.

Note 4 - Debt Obligation

At July 2, 2010 and July 3, 2009 debt obligations consisted of the following:

	2010	2009
Term loan - Interest at 6.20 percent through June 2011	\$ 3,265,600	\$ 3,466,600
Less current portion of long-term debt	<u>213,800</u>	<u>201,000</u>
Total long-term debt	<u>\$ 3,051,800</u>	<u>\$ 3,265,600</u>

Inn-Ohio of Athens, Inc.

Notes to Financial Statements July 2, 2010 and July 3, 2009

Note 4 - Debt Obligation (Continued)

In June 2006, the Company obtained a secured \$4,000,000 term loan (the "Term Loan") the proceeds of which were used to pay a dividend of \$3,000,000 in June 2006 and \$1,000,000 of which was placed in the bond fund to retire the 1996 Serial and Term Project Bonds in November 2006. The Term Loan is guaranteed by the Stockholder.

Substantially all of the property and equipment are pledged as collateral for the Term Loan. Principal payments on the Term Loan ranging from \$16,300 to \$34,100 are due in monthly installments through June 2021. The interest rate on the new Term Loan is fixed at 6.20 percent through June 2011. The interest rate will be adjusted to the index rate as defined in the agreement plus 1.40 percent in June 2011 and every five years thereafter.

Maturities of long-term debt are as follows at July 2, 2010:

<u>Year Ending</u>	<u>Amount</u>
2011	213,800
2012	227,400
2013	242,000
2014	257,400
2015	273,700
Due thereafter	<u>2,051,300</u>
Total	<u>\$ 3,265,600</u>

Note 5 - Working Capital Loans Payable to Stockholder

The Stockholder had made available to the Company working capital loans, interest at the prime rate, of up to \$450,000 at July 2, 2010 and July 3, 2009. There were no outstanding borrowings on these working capital loans at July 2, 2010 and July 3, 2009. The interest rate, which is stated at the prime rate, was 3.25 percent as of both July 2, 2010 and July 3, 2009.

Note 6 - Management Fees

The property manager's compensation is based on a base fee plus a percentage of the hotel's net available operating profit, as defined in the management agreement. Management fees earned by the manager were \$180,353 and \$174,656 in fiscal years 2010 and 2009, respectively.

Inn-Ohio of Athens, Inc.

Notes to Financial Statements July 2, 2010 and July 3, 2009

Note 7 - Income Taxes

The provision for income taxes for the years ended July 2, 2010 and July 3, 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Currently payable	\$ -	\$ -
Deferred tax expense	<u>22,226</u>	<u>32,052</u>
Provision for income taxes	<u>\$ 22,226</u>	<u>\$ 32,052</u>

The Company has AMT credit carryforwards of approximately \$40,000 as of July 2, 2010 and July 3, 2009.

The components of the deferred income tax assets and liabilities as of July 2, 2010 and July 3, 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Current deferred tax asset - Accrued liabilities and reserves	\$ 22,209	\$ 30,895
Noncurrent deferred tax assets (liabilities):		
Depreciation and amortization	(141,124)	(137,013)
AMT credit carryforwards	<u>40,000</u>	<u>40,000</u>
Net deferred tax liabilities	<u>\$ (78,915)</u>	<u>\$ (66,118)</u>

The difference between the federal statutory tax rate and the Company's provision for income taxes related primarily to state income taxes and changes in the estimated valuation allowance.

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*

To the Board of Directors
Inn-Ohio of Athens, Inc.

We have audited the financial statements of Inn-Ohio of Athens, Inc. (the "Company") as of and for the years ended July 2, 2010 and July 3, 2009 and have issued our report thereon dated October 1, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Inn-Ohio of Athens, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Company's board of directors, management of the Inn-Ohio of Athens, Inc., and the auditor of the State of Ohio and is not intended to be used and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 1, 2010

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Mary Taylor, CPA
Auditor of State

INN-OHIO OF ATHENS, INC.

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 9, 2010**