Inn-Ohio of Athens, Inc.

(a wholly owned subsidiary of The Ohio University Foundation)

Financial Report

June 30, 2018

Dave Yost • Auditor of State

Board of Directors
Inn-Ohio of Athens, Inc.
West Union Street Office Center, Suite 275
One Ohio University
Athens, Ohio 45701-2979

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 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 Inn-Ohio of Athens, Inc. is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

October 14, 2018

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Inn-Ohio of Athens, Inc. (the "Company"), a wholly owned subsidiary of The Ohio University Foundation, which comprise the balance sheet as of June 30, 2018 and 2017 and the related statements of operations and comprehensive income, stockholders' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inn-Ohio of Athens, Inc. 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2018 on our consideration of Inn-Ohio of Athens, Inc.'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 Inn-Ohio of Athens, Inc.'s internal control over financial reporting and compliance.

Plante & Moran, PLLC

August 31, 2018

Balance Sheet

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	$ 839,591	$ 1,036,040
Investments (Note 3)	1,487,810	1,589,885
Accounts receivable - Net of allowance for doubtful accounts of $6,000 as of June 30, 2018 and 2017	122,987	102,910
Inventories	43,833	40,823
Prepaid expenses and other assets	52,850	33,117
Deferred income tax assets (Note 7)	35,000	65,000
Total current assets	2,582,071	2,867,775
Property and Equipment - At cost		
Land	323,978	323,978
Land improvements	926,463	908,906
Buildings	7,646,223	7,445,499
Furniture and fixtures	5,412,816	4,864,140
Construction in progress	9,531	69,221
Total property and equipment - At cost	14,319,011	13,611,744
Less accumulated depreciation and amortization	9,478,318	8,751,798
Net property and equipment	4,840,693	4,859,946
Total assets	**$ 7,422,764**	**$ 7,727,721**

Balance Sheet (Continued)

June 30, 2018 and 2017

	2018	2017
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	$ 56,395	$ 29,897
Current portion of long-term debt (Note 4)	350,500	329,600
Accrued and other current liabilities:		
Taxes payable	98,985	359,003
Accrued compensation	207,524	212,970
Other accrued liabilities	163,521	220,555
Total current liabilities	876,925	1,152,025
Long-term Debt - Net of current portion and unamortized loan issuance costs (Note 4)	762,907	1,111,308
Deferred Income Tax Liability (Note 7)	311,000	490,000
Total liabilities	1,950,832	2,753,333
Stockholders' Equity		
Common stock - Voting, no par value, stated value $10,000 per share, authorized 750 shares, 342.9192 shares issued and outstanding	3,429,192	3,429,192
Contributed capital	4,266,632	4,266,632
Accumulated other comprehensive loss	(79,061)	(45,293)
Accumulated deficit	(2,144,831)	(2,676,143)
Total stockholders' equity	5,471,932	4,974,388
Total liabilities and stockholder's equity	**$ 7,422,764**	**$ 7,727,721**

Statement of Operations and Comprehensive Income

Years Ended June 30, 2018 and 2017

	2018	2017
Revenue		
Room	$ 3,619,779	$ 3,444,095
Restaurant	1,806,414	1,694,750
Beverage	414,825	397,042
Telephone	249	302
Total revenue	5,841,267	5,536,189
Operating Expenses		
Room	773,488	707,178
Restaurant	1,418,158	1,346,986
Beverage	154,737	153,413
Telephone	40,065	39,580
Total operating expenses	2,386,448	2,247,157
Income Before General and Unapportioned Expenses	3,454,819	3,289,032
General and Unapportioned Expenses		
Administrative and general	781,046	718,517
Repairs and maintenance	455,972	430,503
Taxes, insurance, and other	219,522	223,647
Marketing	262,797	252,073
Management fees (Note 6)	273,809	262,037
Utilities	173,326	148,231
Total general and unapportioned expenses	2,166,472	2,035,008
Capital Expenses		
Interest - Net of other income of $39,679 and $36,370 during 2018 and 2017, respectively	(5,066)	6,213
Realized losses (gains) on investments	11,170	(53,102)
Depreciation	775,359	770,920
Total capital expenses	781,463	724,031
Income Before Provision for Income Taxes	506,884	529,993
Income Tax (Recovery) Expense (Note 7)	(24,428)	201,339
Net Income	531,312	328,654
Other Comprehensive Loss - Unrealized losses on investments	(33,768)	(82,792)
Comprehensive Income	**$ 497,544**	**$ 245,862**

See notes to financial statements.

Statement of Stockholders' Equity

Years Ended June 30, 2018 and 2017

	Common Stock	Contributed Capital	Accumulated Deficit	Accumulated Comprehensive Gain (Loss)	Total Stockholder's Equity
Balance - July 1, 2016	$ 3,429,192	$ 4,266,632	$ (2,754,797)	$ 37,499	$ 4,978,526
Net income	-	-	328,654	-	328,654
Distributions to stockholder	-	-	(250,000)	-	(250,000)
Other comprehensive loss	-	-	-	(82,792)	(82,792)
Balance - June 30, 2017	3,429,192	4,266,632	(2,676,143)	(45,293)	4,974,388
Net income	-	-	531,312	-	531,312
Other comprehensive loss	-	-	-	(33,768)	(33,768)
Balance - June 30, 2018	**$ 3,429,192**	**$ 4,266,632**	**$ (2,144,831)**	**$ (79,061)**	**$ 5,471,932**

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Net income	$ 531,312	$ 328,654
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	775,359	770,920
Deferred income tax recovery	(149,000)	(48,000)
Loss on disposal of property and equipment	-	2,872
Realized losses (gains) on sale of investments	11,170	(53,102)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	(20,077)	56,032
Inventories	(3,010)	8,797
Prepaid expenses and other assets	(19,733)	(20,042)
Accounts payable	26,498	(1,652)
Accrued and other liabilities	(322,498)	183,276
Net cash provided by operating activities	830,021	1,227,755
Cash Flows from Investing Activities		
Acquisition of property and equipment	(798,969)	(286,215)
Purchases of investments	(200,000)	(1,629,598)
Proceeds from sale of investments	300,000	1,385,888
Net cash used in investing activities	(698,969)	(529,925)
Cash Flows from Financing Activities		
Payments on long-term debt	(327,501)	(307,802)
Distributions to stockholders	-	(250,000)
Net cash used in financing activities	(327,501)	(557,802)
Net (Decrease) Increase in Cash	(196,449)	140,028
Cash - Beginning of year	1,036,040	896,012
Cash - End of year	**$ 839,591**	**$ 1,036,040**
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 28,605	$ 40,485
Income taxes paid	386,000	135,000

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 The Ohio University Inn (the "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 - 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

At times, cash may exceed federally insured amounts. At June 30, 2018, the Company held $523,773 in cash that was uninsured by the FDIC.

Advertising Expense

Advertising costs are included in marketing expenses on the statement of operations and comprehensive income and expensed as incurred. Advertising expense for the years ended June 30, 2018 and 2017 was approximately $93,000 and $94,000, respectively.

Investments

Investments consist of a fixed-income mutual fund. These securities are valued at market value and are classified as available for sale as they are not to be held for an indefinite period of time. Unrealized holding losses, which have been in a loss position for less than one year, of approximately $34,000 and $83,000 are reported in other comprehensive income and are included as a component of stockholders' equity for the years ended June 30, 2018 and 2017, respectively. Realized losses for the year ended June 30, 2018 were approximately $11,000. Realized gains for the year ended June 30, 2017 were approximately $53,000.

Trade Accounts Receivable

Accounts receivable consist of balances due from customers or business 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 Ohio University, a related party, and its affiliates.

Accounts receivable include amounts due from Ohio University and its related programs, departments, and affiliates of approximately $55,000 and $73,000 as of June 30, 2018 and 2017, respectively. As Ohio University is the sole beneficiary of The Ohio University Foundation and The Ohio University Foundation has sole ownership rights in the Inn, Ohio University is considered a related party. Accounts receivable are stated at invoice amounts.

Note 2 - Significant Accounting Policies (Continued)

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 or net realizable value (NRV), with cost determined on the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. Cost 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 lives of the property and equipment. The estimated useful lives are as follows:

	Depreciable Life - Years
Land improvements	5-15
Buildings	30-40
Furnishings, fixtures, and equipment	3-10

Depreciation expense for the years ended June 30, 2018 and 2017 totaled $775,359 and $770,920, respectively. As of June 30, 2018 and 2017, the Company is of the opinion that there is no impairment of property and equipment.

Loan Issuance Costs

Loan 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 both of the years ended June 30, 2018 and 2017.

Revenue and Cost Recognition

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 Ohio University and its related programs, departments, and affiliates.

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.

Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net income, are considered components of comprehensive income.

Note 2 - Significant Accounting Policies (Continued)

Change in Accounting Principle

As of July 1, 2017, the Company adopted new guidance related to measurement of inventories. Under the new guidance, inventories are measured at the lower of cost or net realizable value (NRV), with NRV based on selling prices in the ordinary course of business, less costs of completion, disposal, and transportation. In previous years, inventories were measured at the lower of cost or market, with market generally based on replacement costs, adjusted for other factors. Prior years have not been restated.

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 and does not expect a significant change to the timing of its revenue recognition upon adoption of the accounting pronouncement.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which will modify how deferred income taxes are presented on the balance sheet. The ASU will require all deferred tax assets and liabilities to be reported as noncurrent in a classified statement of financial position. The new guidance will be effective for the Company’s year ending June 30, 2019. The ASU permits the new deferred income tax classification guidance to be applied either prospectively or retrospectively. The Company has not yet determined which application method it will use and the impact of the new standard on the financial statements is not expected to be material.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including August 31, 2018, 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 inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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 in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

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.

Note 3 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above 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.

The Company's investment in fixed-income mutual funds totaling $1,487,810 and $1,589,885 as of June 30, 2018 and 2017, respectively, is valued using Level 1 inputs.

Note 4 - Long-term Debt

At June 30, 2018 and 2017, debt obligations consisted of the following:

	2018	2017
Term loan	$ 1,120,400	$ 1,450,000
Less current portion of long-term debt	(350,500)	(329,600)
Less unamortized loan costs	(6,993)	(9,092)
Total long-term portion	$ 762,907	$ 1,111,308

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 $21,000 to $34,100 are due in monthly installments through June 2021. The interest rate on the new Term Loan was fixed at 6.20 percent through June 2011 and was adjusted to 3.31 percent as of July 1, 2011. The interest rate was adjusted to the index rate as defined in the agreement plus 1.40 percent in June 2016, effectively 2.50 percent.

Maturities of long-term debt are as follows at June 30, 2018:

Years Ending	Amount
2019	$ 350,500
2020	373,000
2021	396,900
Total	$ 1,120,400

Note 5 - Working Capital Loans Payable to Stockholder

The Stockholder made available to the Company working capital loans, with interest at the prime rate, of up to $450,000 at June 30, 2018 and 2017. There were no outstanding borrowings on these working capital loans at June 30, 2018 and 2017. The interest rate, which is stated at the prime rate, was 5.00 and 4.25 percent as of June 30, 2018 and 2017, respectively.

Note 6 - Management Fees

The property manager's compensation is based on a base fee plus a percentage of the Inn's net available operating profit, as defined in the management agreement. Management fees earned by the manager were $273,809 and $262,037 in fiscal years 2018 and 2017, respectively.

Note 7 - Income Taxes

The provision for income taxes for the years ended June 30, 2018 and 2017 consists of the following:

	2018	2017
Current income tax expense	$ 124,572	$ 249,339
Deferred income tax recovery	(149,000)	(48,000)
Total income tax (recovery) expense	$ (24,428)	$ 201,339

The components of the deferred income tax asset and liability as of June 30, 2018 and 2017 are as follows:

	2018	2017
Current deferred tax - Accrued liabilities and reserve	$ 35,000	$ 65,000
Noncurrent deferred tax liabilities - Depreciation and amortization	(311,000)	(490,000)
Total provision for income taxes	$ (276,000)	$ (425,000)

For 2018 and 2017, the Company's effective tax rate differs from the statutory rate primarily due to state income taxes and the change in the federal tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act changes existing U.S. tax law and includes provisions that impact the Company. Specifically, effective January 1, 2018, the U.S. federal tax rate decreased from 34 percent to 21 percent. The reduction of corporate tax rates decreased the deferred tax assets and deferred tax liabilities by approximately $164,000 at June 30, 2018. The change is included in income tax expense for 2018.

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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 Trustees
Inn-Ohio of Athens, Inc.

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 Inn-Ohio of Athens, Inc. (the "Company"), a wholly owned subsidiary of The Ohio University Foundation, which comprise the balance sheet as of June 30, 2018 and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated August 31, 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 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.*

To Management and the Board of Trustees
Inn-Ohio of Athens, Inc.

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

August 31, 2018

Dave Yost • 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
NOVEMBER 8, 2018

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