Wright State Applied Research Corporation

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017

OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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Board of Directors
Wright State Applied Research Corporation
4035 Colonel Glenn Highway
Beavercreek, Ohio 45431

We have reviewed the *Independent Auditor's Report* of the Wright State Applied Research Corporation, Greene County, prepared by BKD, LLP, 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

FINDING FOR RECOVERY – CONSULTING SERVICE EXPENSES

The Auditor of State's Office obtained copies of contracts and invoices associated with the Ron Wine Consulting Group, LLC, and noted the following:

Purchase Order Expenses

The Wright State Applied Research Corporation (WSARC) processed and approved 18 invoices for consulting services provided by the Ron Wine Consulting Group, LLC from October 2013 through January 2015 totaling $461,198. WSARC did not enter into a Consulting Services Agreement with the Ron Wine Consulting Group, LLC defining the scope of services and responsibilities, compensation, term and termination. Furthermore, the invoices submitted by the consulting group lacked supporting documentation detailing the work performed. These invoices referenced consulting services, Wright State University purchase order no. 25871, and the number of hours billed. Mr. Wine referred to these payments as contract performance bonuses/retainers in the State of Ohio's Office of the Inspector General Report No. 2016-CA00002.

Based on this information, there was insufficient detail in the supporting documentation provided for these payments, totaling $461,198.

<u>Subgrant Agreement Expenses</u>

WSARC entered into a Subgrant Agreement with Ron Wine Consulting Group, LLC on October 1, 2012, which was signed by WSARC's then Chief Executive Officer, Ryan Fendley. The Subgrant Agreement was for consulting services applicable to the Project for the Defense Aerospace Graduate Studies Institute.

Article 1. PERIOD OF PERFORMANCE of the Agreement states:

> This Agreement is effective October 1, 2012 and expires December 31, 2013 unless extended in writing by mutual Agreements of the parties. Subgrantee is not obligated to continue work or to provide services after the expiration date, and the WSARC is not obligated to compensate Subgrantee for expenses incurred or commitments made after the expiration date.

Article 2. COST of the Agreement states, in part:

> The total estimated time and materials price for labor expended and costs and expenses incurred for the performance of this Agreement is $400,000....

Article 10. AMENDMENTS AND MODIFICATIONS, Section 10.1 of the Agreement states:

> Either Party may at any time during the Term of this Agreement request amendments or modifications to this Agreement. Requests for amendment or modification shall be made in writing and shall specify the requested changes and the justification for such changes. The Parties shall review the request for modification taking into account regulations applicable to the grant program and the status and goals of the Project. If the Parties determine that the Agreement should be amended, an amendment shall be written, approved, and executed in the same manner as the Agreement.

Article 10. AMENDMENTS AND MODIFICATIONS, Section 10.2 of the Agreement states, in part:

> Without limiting the generality of the foregoing, a written amendment shall be required to affect any of the following changes with respect to the Project:
>
> . . .

(d) One or more alterations to budget line items appearing in Exhibit A, Project Budget that are funded in whole or in part by the Subgrant Funds if the change or series of

> changes exceeds ten percent (10%) of the total amount of Subgrant Funds on a cumulative basis or if the alteration conflicts with any other terms or conditions of this Agreement;
>
> . . .

The Agreement expired on December 31, 2013, and was retroactively modified on March 27, 2015, to extend the Agreement's performance period through April 30, 2015; however, the modification did not modify the terms of the underlying Agreement, including the maximum fee, which was set at $400,000. The modified Agreement was signed by WSARC's current Chief Executive Officer, Dennis Andersh who succeeded Ryan Fendley. The Ron Wine Consulting Group, LLC was paid $1,132,500, which was $732,500 over the $400,000 amount allowed per the Subgrant Agreement.

Consulting Services Agreement Expenses

WSARC entered into a Consulting Services Agreement with the Ron Wine Consulting Group, LLC on May 31, 2015, which was signed by WSARC's current Chief Executive Officer, Dennis Andersh. The services to be provided under this Agreement were for consulting services to achieve goals for the Alliance for Human Effectiveness and Advancement and the Aerospace Professional Development Center; work with the WSARC Chief Executive Officer to develop, lead, and execute strategic initiatives at the state and federal levels to create research centers; and, develop recommendations and plans to grow the University and Wright State Research Institute.

The Agreement was effective from May 1, 2015 through June 30, 2019, and was signed by the parties on May 31, 2015. Exhibit A, Project Budget 2.a of this Agreement states:

> Consultant services provided under the Agreement will be billed by Consultant(s) at 3 separate base hourly rates of $100, $175, and $250. Initial estimate of hours to be worked per month under this Agreement is 160 hours per rate category, but the total hours worked per month across all rate categories is not to exceed a maximum of 480 hours. Compensation for support services will be done on a case-by-case basis and will require approval of WSARC CEO prior to commencing work.

According to WSARC records, the Ron Wine Consulting Group, LLC was paid $449,400 under this agreement before it was suspended on January 11, 2016. The Ron Wine Consulting Group, LLC was paid $139,950 for Program Manager and Executive Support hours from June 2015 through December 2015. Support services related to the Agreement were to be preapproved by the WSARC Chief Executive Officer, Dennis Andersh, or an authorized designee prior to any work commencing. However, the approval of these support services were not documented prior to the work being completed, totaling $139,950.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code § 117.28, a finding for recovery is hereby issued for public monies illegally expended against Ronald D. Wine as acting President of Ron Wine Consulting Group, LLC and signatory to each Agreement, and Ron Wine Consulting Group, LLC in the amount of $1,333,648 and in favor of WSARC.

Furthermore, Wright State University employees who had given WSARC the authority to do business with the Ron Wine Consulting Group, LLC and WSARC employees who approved contracts and/or invoices submitted by the consulting group that resulted in the improper payments will be jointly and severally liable and in favor of WSARC. The following individuals shall be liable to the extent listed below for improper payments to the Ron Wine Consulting Group, LLC with credit provided to each individual based on dates of employment in various roles, which include but are not limited to the following titles, with either entity:

- Ryan Fendley, former Chief Executive Officer of WSARC, former Senior Advisor to the Provost, and former Director of Operations and Strategic Initiatives of the University, totaling $1,193,698;

- Dr. Sundaram Narayanan, former Provost of the University, totaling $1,193,698;

- Dennis Andersh, current Chief Executive Officer of WSARC, totaling $942,700; and,

- Keith Ralston, former Chief Financial Officer of WSARC, totaling $216,448.

We recommend WSARC:

- Review and evaluate the policies and procedures over allowable expenses and update them as necessary to ensure the process is sound, complete, and in compliance with all applicable laws, rules and regulations.
- Use a competitive selection process when procuring services, and document the reasoning for selecting a particular vendor.
- Enter into a written contract with vendors to ensure the scope of work, terms and responsibilities, conditions of the contract are understood and mutually agreed upon by WSARC and the vendor.
- Ensure someone with knowledge of the contract is approving invoices for payment to ensure these expenses are allowable and the amount paid does not exceed the amount allowed in the contract. Invoices should contain sufficient detail of the services provided, including dates, number of hours, and a description of the services performed.
- Ensure contract approvals, including modifications, are sufficiently and timely documented to provide assurance the terms and conditions of the services to be provided are clearly documented and executed as management intended.

- Monitor all contracts to ensure vendors are in compliance with the terms of the contracts, meeting deliverables, and not performing unallowable services per the terms of the contract.
- Create its own purchase orders after a contract is signed to assist the entity monitoring a vendors' activities and ensuring the expenses do not exceed the amount allowable under the contract.
- Obtain the Board's approval prior to entering into any contracts to ensure the contracts align with WSARC's mission and goals. WSARC should establish a reasonable threshold and/or types of contracts that require the Board's approval.

<u>Official's Response</u>

On July 11, 2019, WSARC provided a response disagreeing with the finding. A copy of WSARC's response letter is included immediately following this cover letter. Copies of the attachments referenced in their response letter may be obtained from Dennis Andersh, Chief Executive Officer at (937) 705-1005.

<u>Auditor of State's Conclusion</u>

We reviewed WSARC's response, including the attachments, and determined the finding will remain as stated above.

<u>Additional Information</u>

On June 11, 2019, the Office of the Inspector General issued Report No. 2017-CA00022, which was referred to the Auditor of State for consideration. The Office of the Inspector General determined WSARC had improperly spent funds earmarked by the Ohio legislature for the workforce development and consultation services. Our review and evaluation of the Office of the Inspector General's findings is ongoing.

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 Wright State Applied Research Corporation is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

July 26, 2019

Taft/

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July 11, 2019

Via email (ACRadebaugh@ohioauditor.gov)

Ohio Auditor of State
Amy Radebaugh
Senior Audit Manager
88 E. Broad Street, 10th Floor
Columbus, OH 43215

Re: WSARC Supplemental Response to Auditor of State's Request for Additional Documents

Dear Ms. Radebaugh:

This letter and the information provided with this letter are in response to the Ohio Auditor of State's "Finding for Recovery-Consulting Services Expenses" (hereinafter "FFR") that was provided to Dennis Andersh at the Wright State Applied Research Corporation ("WSARC") on June 26, 2019. Thank you for allowing WSARC an opportunity to provide a response to this document.

On page 2 of the FFR, under "Consulting Services Agreement Expenses", the FFR states that the consulting services to be provided by RWCG were to "… achieve goals for the Association on Higher Education and Disability and Aerospace Professional Development Center; work with the WSARC Chief Executive Officer to develop, lead, and execute strategic initiatives at the state and federal levels to create research centers; and, develop recommendations and plans to grow the University and Wright State Research Institute." WSARC believes the statement highlighted in yellow is in error, because it is not a part of the Project Goals/Strategic Activities (i.e. statement of work) for the 2015 Consulting Services Agreement with RWCG.[1]

The Project Goals/Strategic Activities do not include consulting services to achieve goals for the Association on Higher Education. Instead, it provides for RWCG to provide consulting services to achieve goals for the Alliance for Human Effectiveness and Advancement (AHEAD).

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[1] The Project Goals/Strategic Activities to be performed by RWCG are detailed in Exhibit A to the 2015 Consulting Services Agreement, which is included with this letter as **Attachment 1**.

The work performed by RWCG is consistent with achieving the goals of AHEAD. AHEAD was a new workforce and new job creation business model created in 2013 for the Dayton region. AHEAD was established to create a world recognized center for human performance research, technology and commercialization at the request of the Air Force Research Laboratory with objectives to:

- Expand human systems research portfolio in Ohio
- Create environment to attract top research talent
- Partner to attract private investment
- Collaborate with AFRL and NASIC to add mission value
- Increase Ohio's share of federal research contracts
- Create new high value jobs in the Human Performance cluster

It was created in collaboration with the Dayton region and Wright Patterson AFB to protect the Air Force Research Lab (AFRL) footprint, and to position AFRL for future base re-alignment and closure activities (BRAC). The work covered by RWCG's invoices was in furtherance of achieving these goals.

This same section of the FFR (page 2) includes the following statement/conclusion:

> "The Agreement was effective from May 1, 2015 through June 30, 2019, and was signed by the parties on May 31, 2015. Exhibit A, Project Budget 2.a of this Agreement states:
>
>> Consultant services provided under the Agreement will be billed by Consultant(s) at 3 separate base hourly rates of $100, $175, and $250. Initial estimate of hours to be worked per month under this Agreement is 160 hours per rate category, but the total hours worked per month across all rate categories is not to exceed a maximum of 480 hours. Compensation for support services will be done on a case-by-case basis and will require approval of WSARC CEO prior to commencing work.
>
> According to WSARC records, the Ron Wine Consulting Group, LLC was paid $449,400 under this agreement before it was suspended on January 11, 2016. The Ron Wine Consulting Group, LLC was paid $139,950 for Program Manager and Executive Support hours from June 2015 through December 2015. Hours for support services were to be preapproved by the WSARC Chief Executive Officer, Dennis Andersh, or an authorized designee prior

> to any work commencing. However, the approval of these support service hours was not documented prior to the work being completed, totaling $139,950."

It is correct that the WSARC CEO, or an authorized designee, was required to preapprove specific work/taskings before they were performed by RWCG. However, the Consulting Services Agreement did not require WSARC to preapprove the number of *hours* it would take RWCG to perform any particular task, or to preapprove the hourly *rate* (i.e., labor category) that would be used by RWCG to perform the task. As long as RWCG did not exceed a maximum of 480 hours per month, the manner in which it accomplished the work, utilizing the various labor category rates established in the Agreement, was at its discretion. Moreover, it was acceptable for WSARC to preapprove the work/tasks verbally or in writing. The email exchanges between Mr. Wine and Mr. Andersh that were provided to you in April 2019, clearly show Mr. Andersh was tasking and authorizing RWCG to perform the work on a regular basis.[2]

In addition, RWCG did not receive any State money for the work performed under contract CA-15-20. **None of the $449,400 paid to RWCG under the 2015 Consulting Services Agreement was state funding.** This Agreement was funded solely by WSARC's operational overhead. As a result, not only does WSARC disagree that preapproval was required for the number of hours to be worked or the labor category to be utilized, but it also disagrees with any finding of recovery related to invoices for this contract because they were not paid with State money. WSARC will not pursue recovery of these funds because they were spent appropriately per the Agreement's guidelines for work product produced by RWCG.

As stated in our previous submissions, WSARC also disagrees with the findings against Mr. Andersh and Mr. Ralston for several reasons. When Mr. Ralston arrived at WSARC in 2013 there was no invoice or contract review and approval processes in place. Mr. Fendley would write a contract, receive an invoice and write the payment check. There were zero checks and balances. Mr. Ralston began the institution of a separate invoice and check writing approval process. After Mr. Andersh's arrival in December 2013, he and Mr. Ralston worked diligently to create a total segregation of duties and began putting even the most basic of processes in place because none existed.

When the Federal H1B investigations began, Mr. Andersh and Mr. Ralston fully cooperated with Plante Moran and WSU's Acting General Counsel. Mr. Andersh often sought their counsel on what needed to be done and when it should be done. In February 2015, the WSU Acting General Counsel instructed WSARC and WSRI leadership to not touch or change anything, including the RWCG contract, until further notice. In March 2015, after asking Mr. Fendley multiple times where the RWCG contracts were located, Mr. Andersh and Mr. Ralston were told

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[2] A snapshot of those emails is included with this letter as **Attachment 2**.

not to have any conversations with Dr. Narayanan or Mr. Fendley. It was at that point they realized the contracts probably did not exist, and decided the only thing they could do was have Mr. Wine sign a retroactive contract to cover the RWCG work.

During that same time, Mr. Andersh and Mr. Ralston also began developing a methodology to clean up consultant contracts at WSARC and work toward a single contract template for all consultants. Because there was a pending investigation, WSU's Acting General Counsel gave Mr. Andersh advice about the RWCG contracts, and Mr. Andersh expressed to them his belief that Mr. Wine should be paid from WSARC overhead and not from State funds. They agreed. That is why the 2015 Consulting Services Agreement (CA-15-20) was funded with WSARC overhead and not workforce development funds. The 2015 Consulting Services Agreement was put in place after Dr. Narayanan and Mr. Fendley were put on leave by WSU in May 2015.

All of the corrections made to WSARC operations by Mr. Andersh and Mr. Ralston are summarized in **Attachment 3**. These corrections address all the FFR recommendations and have been implemented since September 2015 when Mr. Andersh took over as the WSRI Executive Director from Dr. Narayanan. It is for these reasons WSARC does not plan to seek recovery of any funds from Mr. Andersh and Mr. Ralston. Not only were they executing their job duties and approving the invoices at the direction of their superiors, they took the actions to fix the WSARC and WSRI compliance issues.

WSARC would like to take this opportunity to reiterate the reasons it disagrees with the conclusions set forth in the FFR. As the Court of Claims of Ohio stated in a decision last year, WSARC is not a state entity. Because WSARC is a private corporation, neither it nor any of its officers or directors (specifically Mr. Andersh and Mr. Ralston) are "public officials" subject to a finding of recovery from your office pursuant to R.C. §117.28. See also R.C. §117.01(E).[3] WSARC is a separate entity from WSU. In fact, BKD has audited the separate financial statements of WSARC. BKD has also audited WSU's financial statements, which disclose that WSARC is a separate 501(c)(3) entity.[4]

Finally, during our teleconference on July 3, 2019, a question was raised about Surety bonding for WSARC. In March 2019, WSARC provided a document in response to questions from your office, based on its understanding of the request at that time.[5] That is, WSARC's response focused on its Surety bonding rather than insurance. For completeness, we are including a copy of the WSARC Directors and Officers (D&O) insurance policy with this letter.[6] This policy is the reason counsel for Cincinnati Insurance participated in our July 3 call.

[3] See **Attachment 4** for the Court of Claims ruling, **Attachment 5** for the WSARC code of regulations, and **Attachment 6** for the WSU / WSARC affiliation agreement.
[4] See **Attachment 7**, page 26.
[5] See **Attachment 8.**
[6] See **Attachment 9**.

In summary, the conclusions reached in the FFR are primarily based on the lack of a written contract between RWCG and WSARC during certain time periods, and/or the lack of documentation to demonstrate the work was performed. Although there may not have been a written contract in place during certain times, RWCG continued to perform work and WSARC continued to pay RWCG for that work, which created an enforceable verbal contract. WSARC does not dispute that RWCG performed the work paid for by WSARC.[7] The volume of documents and correspondence between Mr. Wine and Mr. Andersh validate the work performed by RWCG. WSARC therefore does not believe the invoices approved by Mr. Ralston or Mr. Andersh for the services performed by RWCG were illegal, improper, or questionable. The approved RWCG invoices were WSARC obligations/liabilities, and as such, they were valid and legal expenditures.

Thank you for your consideration of this information. WSARC is happy to discuss any of these topics in more detail if you have further questions. Please contact me if you have any questions or need any additional information.

Sincerely,

Suzanne Sumner

Suzanne Sumner

Attachments: 1-9

cc: Dennis Andersh, WSARC CEO (via email)

25868497.1

[7] WSARC only disputes Mr. Wine's public allegation that he had an unwritten agreement with WSU or WSARC to be paid an additional fee for work performed by RWCG.

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Wright State Applied Research Corporation

June 30, 2018 and 2017

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BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Wright State Applied Research Corporation (WSARC), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright State Applied Research Corporation, as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 28, 2018, on our consideration of WSARC'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 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 WSARC's 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 WSARC's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
September 28, 2018

Wright State Applied Research Corporation

Statements of Financial Position

June 30, 2018 and 2017

Assets

	2018	2017
Cash and cash equivalents	$ 5,486,607	$ 12,025,250
Billed accounts receivable	3,364,979	2,117,596
Unbilled accounts receivable	2,924,875	2,178,473
Other accounts receivable	3,396	28,190
Prepaid expenses and other	60,352	56,112
Due from Wright State University	457,590	1,011,637
Note receivable	-	1,303,000
Other assets	300,000	300,000
Property and equipment, net	4,066,852	4,483,023
Total assets	$ 16,664,651	$ 23,503,281

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts payable and accrued expenses	$ 4,794,229	$ 4,112,897
Due to Wright State University	3,623,484	2,954,955
Deferred revenue	5,168,463	11,413,365
Total liabilities	13,586,176	18,481,217
Unrestricted Net Assets	3,078,475	5,022,064
Total liabilities and net assets	$ 16,664,651	$ 23,503,281

Wright State Applied Research Corporation
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Revenue		
Contract and grant revenue	$ 28,720,428	$ 20,048,161
Commercial revenue	295,267	409,001
Rental income	320,088	821,646
Interest and other income	71,609	57,449
Total revenue	29,407,392	21,336,257
Expenses		
Program services		
Direct labor	4,159,186	2,966,706
Travel	305,287	130,891
Subcontract costs	18,351,666	13,480,882
Other direct costs	1,210,595	956,607
Total program services expenses	24,026,734	17,535,086
Support services expenses	6,051,247	4,658,725
Bad debt expense	1,273,000	-
Total expenses	31,350,981	22,193,811
Change in Net Assets	(1,943,589)	(857,554)
Net assets		
Beginning of year	5,022,064	5,879,618
End of year	$ 3,078,475	$ 5,022,064

Wright State Applied Research Corporation

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (1,943,589)	$ (857,554)
Items not requiring (providing) operating activities cash flows		
Depreciation expense	903,692	691,834
Bad debt expense	1,273,000	-
Gain on disposal of property and equipment	-	(25,129)
Net realized loss on investment	-	102,500
Changes in		
Billed accounts receivable	(1,247,383)	1,112,040
Unbilled accounts receivable	(746,402)	(2,455,530)
Other accounts receivable	24,794	(26,942)
Prepaid expenses and other	(4,240)	1,128,549
Due from Wright State University	554,047	(1,011,637)
Accounts payable and accrued expenses	681,332	2,745,408
Other payables	-	(32,788)
Due to Wright State University	668,529	(2,064,213)
Deferred revenue	(6,244,902)	3,909,869
Net cash provided by (used in) operating activities	(6,081,122)	3,216,407
Investing Activities		
Proceeds from disposition of investment	-	100,000
Principal payments received on note receivable	30,000	101,119
Purchases of property and equipment	(487,521)	(99,057)
Net cash provided by (used in) investing activities	(457,521)	102,062
(Decrease) Increase in Cash and Cash Equivalents	(6,538,643)	3,318,469
Cash and Cash Equivalents, Beginning of Year	12,025,250	8,706,781
Cash and Cash Equivalents, End of Year	$ 5,486,607	$ 12,025,250
Supplemental Cash Flows Information		
Conversion of unbilled accounts receivable to note receivable	$ -	$ 1,404,119

Note 1: Nature of Operations

Wright State Applied Research Corporation (WSARC) was incorporated on July 26, 2004, as Wright Center of Innovation for Advanced Data Management and Analysis, Inc. (WCI) to deliver solutions that improve the performance and decision-making of individuals and teams by integrating human factors design with innovative visualization and computing technologies. On March 30, 2011, WCI changed its name to Wright State Applied Research Corporation. WSARC is the contracting entity for the Wright State Research Institute, a department of Wright State University (University). WSARC was also granted tax-exempt status according to the provisions of Section 501(c)(3) of the Internal Revenue Service on July 26, 2004.

WSARC is governed by a board of directors (Board). The Board includes the University president (or his/her designee), two individuals appointed by the University president, a representative of the University's board of trustees and a maximum of nine elected directors who are independent and unrelated to the University. WSARC is a discretely presented component unit of the University.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of WSARC have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Contract and Grant Revenue and Accounts and Notes Receivable

WSARC's principal revenue is derived from sponsored research contracts, which are primarily cost plus fixed fee in nature. Sponsored research contracts are agreements for specific research, which is performed for a sponsor. WSARC recognizes sponsored research contract revenue prorated based upon the costs incurred on each sponsored research contract. The prorated revenue closely approximates the percentage of work completed for each contract. Contract and grant revenue consists primarily of government funding for 2018 and 2017.

Accounts receivable are reflected for both billed and unbilled amounts based upon the work completed for a particular grant or contract. WSARC uses the allowance method to estimate uncollectible accounts and notes receivable in these two categories. The allowances, if any, are based on prior experience and management's analysis of specific contracts. Interest is not charged on any past due balances. As of June 30, 2018 and 2017, there was an allowance recorded of $30,208 and $0, respectively.

Cash and Cash Equivalents

WSARC considers all demand deposits, certificates of deposit, and money market funds with an original maturity of three months or less to be cash and cash equivalents. WSARC maintains cash balances at banks and the accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. As of June 30, 2018 and 2017, WSARC had uninsured deposits of approximately $6,712,000 and $12,055,000, respectively.

Property and Equipment

Property and equipment with an original purchase price or donated value of $5,000 or greater is capitalized at cost for purchased assets and at fair value for donated assets. The straight-line method of depreciation is used over the assets' estimated useful lives (three to seven years for most assets, up to 40 years for buildings and improvements).

Impairment of Long-Lived Assets

WSARC continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, WSARC estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. Management believes that there was no impairment of long-lived assets for the years ended June 30, 2018 and 2017.

Deferred Revenue

Cash received in advance of being earned is recorded as deferred revenue. In the subsequent period, when the revenue recognition criteria are met, revenue is recognized and the deferred revenue is reduced accordingly. The state of Ohio appropriated funds to WSARC for projects and activities that commenced in 2016. At June 30, 2018 and 2017, the balance of deferred revenue relating to the state appropriation is $4,700,849 and $11,413,365, respectively.

Net Assets

Under accounting principles generally accepted in the United States of America, WSARC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations or are designated for use by WSARC's Board of Directors.
- Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of WSARC and/or the passage of time.
- Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by WSARC.

As of June 30, 2018 and 2017, there are no donor restrictions on any of the net assets of WSARC and, therefore, all net assets are reflected as unrestricted.

University Support of WSARC

University employees provide operational, technical and administrative functions for WSARC. These services are recorded as expenses as incurred by WSARC.

Income Tax

WSARC has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 (Code), as an organization described in Sections 501(c)(3) and 170(b)(l)(A)(ii) of the Code. However, WSARC is subject to federal income tax on any unrelated business taxable income.

WSARC files tax returns in the U.S. federal jurisdiction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires WSARC's 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Contingencies

WSARC receives significant assistance from numerous federal and state agencies in the form of grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the sponsor. Any disallowed claims resulting from such audits could become a liability. Management believes that any potential disallowance of claims would not have a material effect on the financial statements.

WSARC is a participant in an investigation by the State of Ohio of the University. Additionally, WSARC is a participant in a federal investigation of the University. The expected time of completion and the potential impacts of these investigations on WSARC are unknown at this time.

WSARC is periodically involved as a defendant or codefendant in various matters of litigation. Management believes that the ultimate disposition of any current matters would not have a material adverse effect upon the financial statements.

Functional Allocation of Expenses

The costs of supporting the various programs and activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and support services categories based on estimated time spent by personnel and other methods.

Subsequent Events

Subsequent events have been evaluated through September 28, 2018, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 3: Property and Equipment

Property, plant and equipment consist of the following at June 30, 2018 and 2017:

	2018	2017
Land	$ 751,085	$ 751,085
Software for projects	703,049	552,259
Computers and hardware	2,354,149	2,162,905
Buildings and building improvements	2,167,474	2,167,474
Furniture and fixtures	1,301,124	1,155,637
Truck trailer	520,904	520,904
Equipment	972,670	972,670
	8,770,455	8,282,934
Less accumulated depreciation	4,703,603	3,799,911
	$ 4,066,852	$ 4,483,023

Note 4: Other Assets

On June 26, 2015, WSARC converted a $300,000 note receivable from the Miami Valley Research Foundation into an option to purchase a proportionate share of approximately 125 acres of land located in Greene County, Ohio. The option expires on June 9, 2019. If the option is not exercised, the $300,000 consideration paid will be returned to WSARC.

Note 5: Related Parties

WSARC is responsible for reimbursing the University for subsequent direct and certain indirect costs incurred by the University related to sponsored research contracts managed by WSARC. Total expenses recorded related to the University were $11,124,963 and $7,488,822 for the years ended June 30, 2018 and 2017, respectively. In addition, WSARC recognizes revenue for space leased to the University in WSARC's building on a month-to-month basis and reimbursement of WSARC expenses incurred on University grants. Total revenue recorded from the University was $2,420,743 and $2,925,643 for the years ended June 30, 2018 and 2017, respectively. The balances owed to and due from the University at June 30, 2018 and 2017, respectively, are stated below.

	2018	2017
Due to Wright State University - accrued wages	$ 3,623,484	$ 2,954,955
Due from Wright State University		
Rent	$ 10,964	$ 777,697
Other	446,626	233,940
Total due from Wright State University	$ 457,590	$ 1,011,637

Note 6: Debt Guaranty

During fiscal year 2014, a donor made a bequest to the University of an office building in the donor's name. The donor has a mortgage on the building of approximately $2,700,000. During fiscal year 2014, WSARC entered into an agreement with the lender guarantying the debt service payments of the mortgage. As of June 30, 2018 and 2017, no amounts were recognized as a liability under the financial guaranty in WSARC's statements of financial position. On June 7, 2018, WSARC obtained a release of this guaranty.

Note 7: Note Receivable

WSARC issued a note receivable to Advanced Technical Intelligence Center for Human Capital Development (ATIC) on December 1, 2016, for $1,404,119. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of $2,500 are due until the earlier of December 31, 2021, or the date ATIC sells its real property located in Greene County, Ohio, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full. At June 30, 2018 and 2017, principal amounts of $1,273,000 and $1,303,000 were outstanding on this note, respectively. As of June 30, 2018, WSARC determined the note was uncollectable and established a corresponding allowance. At June 30, 2018 and 2017, the allowance related to this note was $1,273,000 and $0, respectively.

Note 8: Future Accounting Pronouncements

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances.

The amendment 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 those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). WSARC is in the process of evaluating the impact the amendment will have on the financial statements.

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to WSARC are as follows:

Statement of financial position:

- The statement of financial position will distinguish between two new classes of net assets - those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets - unrestricted, temporarily restricted and permanently restricted.

Statement of activities:

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the financial statements:

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Amounts and purposes of governing Board designations and appropriations as of the end of the period are disclosed.

WSARC is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. WSARC is evaluating the impact the standard will have on the financial statements.

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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

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

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 Wright State Applied Research Corporation ("WSARC"), which comprise the statement of financial position as of June 30, 2018, 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 September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WSARC'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 WSARC's internal control. Accordingly, we do not express an opinion on the effectiveness of WSARC'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 WSARC'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 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.*

We also noted certain matters that we reported to WSARC's management in a separate letter dated September 28, 2018.

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 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.

BKD, LLP

Cincinnati, Ohio
September 28, 2018

OHIO AUDITOR OF STATE
KEITH FABER

WRIGHT STATE APPLIED RESEARCH CORPORATION

GREENE 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
JULY 30, 2019