

**WRIGHT STATE APPLIED
RESEARCH CORPORATION**
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2015 and 2014



Dave Yost • Auditor of State

Board of Trustees
Wright State Applied Research Corporation
4035 Colonel Glenn Highway
Dayton, OH 45431

We have reviewed the *Independent Auditor's Report* of the Wright State Applied Research Corporation, Greene County, prepared by Crowe Horwath LLP, for the audit period July 1, 2014 through June 30, 2015. 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 Wright State Applied Research Corporation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 1, 2016

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WRIGHT STATE APPLIED
RESEARCH CORPORATION
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
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, 2015 and 2014, 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.

(Continued)

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, 2015 and 2014, 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WSARC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
March 29, 2016

WRIGHT STATE APPLIED RESEARCH CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 3,290,934	\$ 4,050,327
Billed accounts receivable	2,864,107	1,357,676
Unbilled accounts receivable	140,873	724,899
Other accounts receivable	168,361	41,094
Other current assets	121,857	79,655
Due from Wright State University	1,718,742	1,607,132
Investment	202,500	202,500
Notes receivable	300,000	300,000
Property and equipment, net	<u>4,135,258</u>	<u>4,552,261</u>
Total assets	<u>\$ 12,942,632</u>	<u>\$ 12,915,544</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 616,613	\$ 498,890
Other payables	32,789	141,295
Accrued expenses	90,858	236,966
Due to Wright State University	7,126,607	3,579,384
Deferred revenue	<u>2,640,430</u>	<u>5,448,820</u>
Total liabilities	<u>10,507,297</u>	<u>9,905,355</u>
 Net assets		
Unrestricted	<u>2,435,335</u>	<u>3,010,189</u>
Total liabilities and net assets	<u>\$ 12,942,632</u>	<u>\$ 12,915,544</u>

The accompanying notes are an integral part of these financial statements.

WRIGHT STATE APPLIED RESEARCH CORPORATION
 STATEMENTS OF ACTIVITIES
 For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenue		
Contract and grant revenue	\$ 15,243,528	\$ 11,627,052
Expenses		
Program services		
Direct labor	6,148,943	3,374,680
Travel	103,554	76,586
Subcontract costs	3,837,443	5,172,522
Other direct costs	1,681,274	2,001,332
Facility cost allocated	<u>437,072</u>	<u>-</u>
Total program services expenses	12,208,286	10,625,120
Support services		
Overhead	1,775,857	792,752
General and administration	<u>1,953,482</u>	<u>1,166,213</u>
Total support services	3,729,339	1,958,965
Other (income) expenses		
Rental income	(31,145)	(71,493)
Facility expenses	46,206	43,886
Other unallowable expenses	16,735	-
Miscellaneous income	<u>(1,039)</u>	<u>(1,524)</u>
Total other (income) expenses	30,757	(29,130)
Total expenses	<u>15,968,382</u>	<u>12,554,955</u>
Change in net assets before contributions	(724,854)	(927,903)
Contribution to equity	-	2,724,251
Contribution	<u>150,000</u>	<u>-</u>
Change in net assets	(574,854)	1,796,348
Net assets		
Beginning of year	<u>3,010,189</u>	<u>1,213,841</u>
End of year	<u>\$ 2,435,335</u>	<u>\$ 3,010,189</u>

The accompanying notes are an integral part of these financial statements.

WRIGHT STATE APPLIED RESEARCH CORPORATION
 STATEMENTS OF CASH FLOWS
 For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (574,854)	\$ 1,796,348
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	761,448	776,690
Contribution to equity	-	(2,724,251)
Changes in operating assets and liabilities		
Billed accounts receivable	(1,506,431)	1,250,796
Unbilled accounts receivable	584,026	186,317
Other accounts receivable	(127,267)	(4,157)
Other current assets	(42,202)	176,326
Due from Wright State University	(111,610)	(3,198,954)
Investments	-	(202,500)
Notes receivable	-	(300,000)
Accounts payable	117,723	(381,118)
Other payables	(108,506)	82,241
Accrued expenses	(146,108)	(288,172)
Due to Wright State University	3,547,223	2,691,764
Deferred revenue	<u>(2,808,390)</u>	<u>(677,500)</u>
Net cash used in operating activities	(414,948)	(816,171)
Cash flows from investing activities		
Purchases of property and equipment	<u>(344,445)</u>	<u>(551,327)</u>
Net cash used in investing activities	<u>(344,445)</u>	<u>(551,327)</u>
Decrease in cash and cash equivalents	(759,393)	(1,367,495)
Cash and cash equivalents, beginning of year	<u>4,050,327</u>	<u>5,417,822</u>
Cash and cash equivalents, end of year	<u>\$ 3,290,934</u>	<u>\$ 4,050,327</u>
Noncash transaction:		
Property and equipment donated by Wright State University	\$ 150,000	\$ 924,251
Advances forgiven by Wright State University	-	1,800,000

The accompanying notes are an integral part of these financial statements.

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 - ORGANIZATION

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 (the "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 an 8-member board of directors (the "Board"). The Board includes the University president, University assistant vice president for research, Dean of the University College of Engineering and Computer Science, WSARC CEO, WSARC President, and three non-University members elected by the Board.

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: 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 of approximately 87% and 93% of government funding for 2015 and 2014, with the remainder consisting of private funding.

Receivables are reflected for both billed and unbilled amounts based upon the work completed. WSARC uses the allowance method to estimate uncollectible receivables 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, 2015 and 2014, there were no allowances.

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, 2015 and 2014. As of June 30, 2015 and 2014, WSARC had uninsured deposits of approximately \$3,000,000 and \$3,800,000, respectively.

Other Assets: Other assets represents certain deposits, a note receivable, and unamortized portion of annual maintenance agreements.

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). The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014.

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 after June 30, 2012. During the years ended June 30, 2014 and 2013, the state of Ohio provided \$4,000,000 to WSARC each year. At June 30, 2015 and 2014, the balance of deferred revenue relating to the state appropriation is \$2,640,430 and \$5,318,490, respectively. Deferred revenue also related to various other contracts is \$0 and \$130,330 at June 30, 2015 and 2014, 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 Trustees.

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, 2015 and 2014, 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 expensed 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 (the "Code"), as an organization described in Sections 501(c)(3) and 170(b)(1)(A)(ii) of the Code. Accordingly, no provision for taxes has been made in the financial statements.

Accounting principles generally accepted in the United States of America prescribe recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2015 and 2014.

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WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WSARC would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. WSARC has no amounts accrued for interest or penalties for the years ended June 30, 2015 and 2014. WSARC is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2011. WSARC does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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 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.

Contingencies: WSARC receives significant assistance from numerous federal and state agencies in the form of grants. 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 grantor agencies. 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 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. In addition, WSARC is a participant in an ongoing federal investigation of the University. The expected time of completion and the potential impacts of the investigation on WSARC are unknown at this time.

Subsequent Events: The financial statements and related disclosures include evaluation of events up through and including March 29, 2016, which is the date the financial statements were available to be issued.

Reclassifications: Certain amounts have been reclassified to conform prior year's financial statements on a basis comparable to the current year's financial statements. The reclassification had no effect on the change in net assets or total net assets.

NOTE 3 - PROPERTY AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 751,085	\$ 751,085
Software for projects	1,311,643	1,311,643
Computers and hardware	4,815,364	4,815,364
Buildings and building improvements	2,181,153	1,973,167
Furniture and fixtures	217,206	185,748
Truck trailer	520,904	520,904
Equipment	<u>666,020</u>	<u>561,021</u>
Total property and equipment	10,463,375	10,118,932
Less accumulated depreciation	<u>6,328,117</u>	<u>5,566,671</u>
Net	<u>\$ 4,135,258</u>	<u>\$ 4,552,261</u>

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2015 and 2014

NOTE 4 - NOTE RECEIVABLE

The Corporation issued a note receivable to a research foundation on June 30, 2014 for \$300,000. The note bears interest at the five-year treasury rate plus 250 basis points, with the interest rate reset on January 1 of each year. Quarterly payments of accrued interest are to be made beginning July 1, 2014, with the principal due at maturity on December 31, 2024. The note is collateralized by all assets of the borrower.

NOTE 5 - RELATED PARTIES

During the year ended June 30, 2013, the state of Ohio awarded the University a multi-year grant, a part of which was to be operated by WSARC. The University purchased \$2,186,173 of capital assets for WSARC during the year ended June 30, 2013. The University purchased \$924,251 of capital assets for WSARC during the year ended June 30, 2014. In addition to the capital assets purchased during the year ended June 30, 2014, the University also forgave \$1,800,000 of amount due from WSARC for the purchase of the building. This is reflected as a contribution to equity by a related party on the Statement of Activities for the year ended June 30, 2014. There were no such activities during fiscal year 2015.

In addition to the building and other equipment purchased by the University during the years ended June 30, 2015 and 2014, 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. In addition, WSARC recognizes revenue for space leased to the University in WSARC's building. The balances owed to and due from the University at June 30, 2015 and 2014, respectively, are as follows:

	<u>2015</u>	<u>2014</u>
Due to Wright State University		
Accrued wages	\$ <u>7,126,607</u>	\$ <u>3,579,384</u>
	7,126,607	3,579,384
Due from Wright State University		
Rent	813,000	172,760
Other	<u>905,742</u>	<u>1,434,372</u>
	<u>1,718,742</u>	<u>1,607,132</u>
Total due to Wright State University	<u>\$ 5,407,865</u>	<u>\$ 1,972,252</u>

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, 2015 and 2014, no amounts were recognized as a liability under the financial guaranty in WSARC's statement of financial position.

SUPPLEMENTARY INFORMATION

WRIGHT STATE APPLIED RESEARCH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2015

Federal grantor/pass-through grantor/program title	Federal CFDA Number	Passthrough Entity - Identifying Number	Expenditures
RESEARCH AND DEVELOPMENT CLUSTER			
Department of Defense			
Direct Awards			
Air Force Defense Research Sciences - ATB	12.800		\$ 2,751,827
Air Force Defense Research Sciences - LVC	12.800		210,275
Defense Advanced Research Projects Agency - HAPTIX-Phase I	12.800		17,221
Total Direct Awards			2,979,323
Pass through entity - Wright Brothers Institute			
Air Force Defense Research Sciences	12.800	WBSC 9028 WSARC-TEW	238,168
Pass through entity - InfoSciTex Corp-HMASINT			
Air Force Defense Research Sciences	12.800	FA865012D6354-0001	55,188
Pass through entity - MacAulay-Brown, Inc.-TTAS			
Air Force Defense Research Sciences	12.800	Classified 12-C-8039	127,857
Pass through entity - InfoSciTex Corp - WARPARE			
Air Force Defense Research Sciences	12.800	FA8650-09-D-6949	3,608
Pass through entity - Universal Tech Corporation			
Air Force Defense Research Sciences	12.800	FA8650-10-D-3037	495,451
Pass through entity - Liedos, Inc. - TAG Q Silverword			
Air Force Defense Research Sciences	12.800	5TP57090124	90,570
Pass through entity - InfoSciTex Corp - AMASE			
Air Force Defense Research Sciences	12.800	FA8650-15-D-2516	262,009
Pass through entity - The Design Knowledge Co. - MOLES			
Air Force Defense Research Sciences	12.800	FA8650-13-D-1547	14,208
Pass through entity - InfoSciTex Corp - IMPACT RQ			
Air Force Defense Research Sciences	12.800	FA8650-14-D-6500	71,649
Pass through entity - Technology Service Corp-ISR Payloads Support			
Air Force Defense Research Sciences	12.800	FA8650-14-C-7400	343
Total Department of Defense			4,338,374
Department of Health and Human Services			
Pass through entity - Sandia National Labs			
National Institutes of Health	93.286	5R01EB013302	13,142
Total Research and Development Cluster			4,351,516
Total Expenditure of Federal Awards			<u>\$ 4,351,516</u>

See accompanying Notes to the Schedule of Federal Awards.

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2015

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Wright State Applied Research Corporation and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Wright State Applied Research Corporation
Dayton, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Wright State Applied Research Corporation ("WSARC"), which comprise the statement of financial position as of June 30, 2015, 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 March 29, 2016.

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.

(Continued)

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
March 29, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Trustees
Wright State Applied Research Corporation
Dayton, Ohio

Report on Compliance for Each Major Federal Program

We have audited Wright State Applied Research Corporation's ("WSARC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of WSARC's major federal programs for the year ended June 30, 2015. WSARC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of WSARC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about WSARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of WSARC's compliance.

Opinion on Each Major Federal Program

In our opinion, WSARC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

(Continued)

Report on Internal Control Over Compliance

Management of WSARC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered WSARC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WSARC's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
March 29, 2016

WRIGHT STATE APPLIED RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2015

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None Reported	
Type of auditors' report issued on compliance for major programs	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))	_____ Yes	<u> X </u> No	

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2015

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

<u>Name of Major Program Identified</u>	<u>CFDA Number(s)</u>
Research and Development Cluster	12.800, 93.286
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

PART II: FINANCIAL STATEMENT FINDINGS SECTION

None

PART III: MAJOR FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

None

PART IV: SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

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Dave Yost • Auditor of State

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
APRIL 12, 2016**