

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

FINANCIAL STATEMENTS
June 30, 2012



Dave Yost • Auditor of State

Board of Trustees
Wright State Applied Research Corporation
3640 Colonel Glenn Highway
Dayton, Ohio 45435

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, 2011 through June 30, 2012. 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

January 22, 2013

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WRIGHT STATE APPLIED
RESEARCH CORPORATION
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Wright State Applied Research Corporation
Dayton, Ohio

We have audited the accompanying statement of financial position of Wright State Applied Research Corporation ("WSARC") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of WSARC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012 on our consideration of WSARC's internal control over financial reporting and 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, 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* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of WSARC as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.


Crowe Horwath LLP

Columbus, Ohio
December 20, 2012

WRIGHT STATE APPLIED RESEARCH CORPORATION
STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

Cash	\$ 4,550,291
Billed accounts receivable	701,335
Unbilled accounts receivable	315,293
Other assets	176,627
Property and equipment, net	<u>941,986</u>

Total assets \$ 6,685,532

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 281,835
Other payables	59,054
Due to Wright State University	1,114,822
Deferred revenue	<u>4,093,912</u>
Total liabilities	<u>5,549,623</u>

Net assets

Unrestricted 1,135,909

Total liabilities and net assets \$ 6,685,532

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

WRIGHT STATE APPLIED RESEARCH CORPORATION
STATEMENT OF ACTIVITIES
For the Year ended June 30, 2012

Revenue	
Contract and grant revenue	\$ 1,837,023
Expenses	
Program services	
Direct labor	1,068,995
Travel	4,219
Subcontract costs	344,143
Other direct costs	<u>391,221</u>
Total program services	1,808,578
Support services	
Overhead	465,633
General and administration	<u>189,630</u>
Total support services	<u>655,263</u>
Total expenses	<u>2,463,841</u>
Change in net assets before other gains and losses	(626,818)
Impairment of software and equipment	(5,851,769)
Contribution to equity	<u>1,011,357</u>
Change in net assets	(5,467,230)
Net assets	
Beginning of year	<u>6,603,139</u>
End of year	<u>\$ 1,135,909</u>

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

WRIGHT STATE APPLIED RESEARCH CORPORATION
STATEMENT OF CASH FLOWS
For the Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (5,467,230)
Depreciation expense	746,832
Contribution to equity	(1,011,357)
Impairment of software and equipment	5,851,769
Changes in operating assets and liabilities	
Billed accounts receivable	(691,335)
Unbilled accounts receivable	(315,293)
Other assets	(94,377)
Accounts payable	94,328
Due to Wright State University	1,064,822
Deferred revenue	4,093,912
Other payable	<u>132,264</u>
Net cash provided by operating activities	4,404,335
Cash flows from financing activities	
Advances from Wright State University	<u>50,000</u>
Increase in cash and cash equivalents	4,454,335
Cash and cash equivalents, beginning of year	<u>95,956</u>
Cash and cash equivalents, end of year	<u>\$ 4,550,291</u>

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

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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. 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. Sponsored research contracts are agreements for specific research, which is performed for a sponsor. WSARC recognizes sponsored research contract revenue prorated based upon the direct costs incurred on each sponsored research contract. The prorated revenue closely approximates the percentage of work completed for each contract.

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.

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, 2012. As of June 30, 2012, WSARC had uninsured deposits totaling \$4,300,291

Other assets: Other assets represent certain deposits and the unamortized portion of annual maintenance agreements.

Property and Equipment: Property and equipment is capitalized at cost. The straight-line method of depreciation is used over the assets' estimated useful lives (three to five years). The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

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. As discussed in Note 3, WSARC assessed that certain assets were impaired during 2012.

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. At June 30, 2012, the state of Ohio appropriated \$4,000,000 to WSARC for projects and activities that will commence after June 30, 2012. Deferred revenue also related to various contracts is \$93,912 at June 30, 2012.

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenues, 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, 2012, 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. The University also furnishes the facilities occupied by WSARC. The facilities space constitutes in-kind contributions to WSARC, the value of which is not reflected within these financial statements.

Federal 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, 2012.

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 year ended June 30, 2012. WSARC is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2009. 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.

Subsequent Events: The financial statements and related disclosures include evaluation of events up through and including December 20, 2012, which is the date the financial statements were available to be issued.

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – PROPERTY AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2012:

Software for projects	\$ 1,189,143
Equipment	<u>3,902,616</u>
Total property and equipment	5,091,759
Less accumulated depreciation	<u>4,149,773</u>
Net	<u>\$ 941,986</u>

During the year ended June 30, 2012, software and related equipment that had been used on certain projects was assessed and considered impaired. Therefore, the remaining book value of the software and equipment was written off and the resulting loss of \$5,851,769 was reflected on the Statement of Activities. The expected discounted future cash flow method was used to determine the fair value of the this non recurring event.

On September 2, 2011, the Wright State Applied Research Corporation (WSARC) signed an agreement to purchase fee simple interest in an office building located at 4035 Colonel Glenn Highway, Beavercreek, Ohio 45435, for a purchase price of \$1,800,000. The building consists of approximately 34,000 rentable square feet of space and is located on approximately 4.4 acres of land. WSARC completed this purchase agreement and closed on the property on July 13, 2012.

NOTE 4 - RELATED PARTIES

Wright State University is a public institution offering a broad array of programs. Prior to June 30, 2011 the University provided certain services to WSARC that were billed to WSARC as they were incurred. Per an agreement reached with the University during the year ended June 30, 2012, the amount outstanding of \$1,011,357 was forgiven by the University. This is reflected as a contribution to equity by a related party on the Statement of Activities.

WSARC is responsible for reimbursing the Wright State University (the "University" or "WSU") for subsequent direct and certain indirect costs incurred by the University related to sponsored research contracts managed by WSARC. The balances owing to the University at June 30, 2012 for these services are \$1,064,822. In addition, during the year ended June 30, 2012, Wright State University paid a deposit of \$50,000 on behalf of WSARC toward the purchase of an office building (Note 3).

SUPPLEMENTARY INFORMATION

WRIGHT STATE APPLIED RESEARCH CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year ended June 30, 2012

Federal grantor/pass-through grantor/program title	Federal CFDA Number	Passthrough Entity - Identifying Number	<u>Expenditures</u>
<u>RESEARCH AND DEVELOPMENT CLUSTER</u>			
Department of Defense			
Pass through entity – Wright Brothers Institute			
Air Force Defense Research Sciences	12.800	WBSC 9028 WSARC-TEW	\$ 105,311
Air Force Defense Research Sciences	12.800	WBSC 9028 – TE	<u>509,257</u>
Total Expenditure of Federal Awards			<u>\$ 614,568</u>

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards 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.

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

Board of Trustees
Wright State Applied Research Corporation
Dayton, Ohio

We have audited the financial statements of Wright State Applied Research Corporation ("WSARC") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Wright State Applied Research Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered WSARC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WSARC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WSARC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the Finding12-01 described in the accompanying schedule of findings and questioned costs to be a material weakness in internal control over financial reporting.

(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*.

WSARC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit WSARC's response and, accordingly, we express no opinion on the response.

We noted certain matters that we reported to management of WSARC in a separate letter dated December 20, 2012.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Columbus, Ohio
December 20, 2012

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Wright State Applied Research Corporation
Dayton, Ohio

Compliance

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 its major federal programs for the year ended June 30, 2012. WSARC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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. 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 the University'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. Our audit does not provide a legal determination of the WSARC 's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the 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, 2012.

(Continued)

Internal Control Over Compliance

Management of Wright State Applied Research Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the WSARC in a separate letter dated December 20, 2012.

The purpose of this report is solely to describe the scope of our testing over compliance and internal controls over compliance with the requirements that could have a direct and material effect on each major program and the results of that testing, and not to provide a legal determination of compliance with those requirements or an opinion on the effectiveness of internal control over compliance. Accordingly, this report is not suitable for any other purpose.



Crowe Horwath LLP

Columbus, Ohio
December 20, 2012

WRIGHT STATE APPLIED RESEARCH CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year ended June 30, 2012

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year ended June 30, 2012

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

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

PART II: FINANCIAL STATEMENT FINDINGS SECTION

Finding 2012-01

Criteria: 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 requires that deficiencies identified during an audit that upon evaluation are considered material weaknesses are to be communicated in writing. In addition, Office of Management and Budget Circular A-133 directs that material weaknesses are to be communicated as a Finding.

Condition: Certain grants which were in process at June 30, 2012 did not have appropriate adjustments for estimated costs to complete for financial reporting purposes. Because the amounts submitted for grant purposes were calculated under a separate process there was no effect on amounts requested for payment by grantors.

Cause: During the audit, we noted that while WRASC had procedures in place to calculate the appropriate revenue related to expended costs it did not have a review process in place to appropriately adjust estimated costs to complete in all cases for financial reporting purposes.

Effect: Because of specific circumstances on three grants, adjustments were required to the estimated costs to complete of these grants. This caused the need to adjust the amount of earned revenue for financial statement purposes.

Recommendation: We recommend that management, in addition to its current input procedures, establish a review process to insure each grant's progress to date is reviewed, estimated costs to complete are assessed and any appropriate adjustments are made to revenue earned to date for financial reporting purposes.

Management Response and Corrective Action: Management concurs with the Finding.

 WSARC has taken steps to address this issue. Its President and Grants Administrator will establish procedures to monitor contract progress and to provide for adjustments to contracts when costs to complete have varied for original estimates. In addition, WSARC has discussed this issue with its system consultant with the intent to develop processes within the software programs to facilitate this monitoring.

(Continued)

WRIGHT STATE APPLIED RESEARCH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year ended June 30, 2012

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
FEBRUARY 5, 2013**