

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

FINANCIAL STATEMENTS
June 30, 2016 and 2015



Dave Yost • Auditor of State

Board of Trustees
Wright State Applied Research Corporation
4035 Colonel Glenn Highway
Dayton, Ohio 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, 2015 through June 30, 2016. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 17, 2017

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WRIGHT STATE APPLIED
RESEARCH CORPORATION
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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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, 2016 and 2015, 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 WSARC as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 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
October 14, 2016

WRIGHT STATE APPLIED RESEARCH CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 8,706,781	\$ 3,290,934
Billed accounts receivable	3,229,636	2,864,107
Unbilled accounts receivable	1,127,062	140,873
Other accounts receivable	1,248	168,361
Other current assets	1,184,661	121,857
Due from Wright State University	-	1,718,742
Investment	202,500	202,500
Other assets	300,000	300,000
Property and equipment, net	<u>5,050,671</u>	<u>4,135,258</u>
Total assets	<u>\$ 19,802,559</u>	<u>\$ 12,942,632</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 629,082	\$ 616,613
Other payables	32,788	32,789
Accrued expenses	738,407	90,858
Due to Wright State University	5,019,168	7,126,607
Deferred revenue	<u>7,503,496</u>	<u>2,640,430</u>
Total liabilities	<u>13,922,941</u>	<u>10,507,297</u>
 Net assets		
Unrestricted	<u>5,879,618</u>	<u>2,435,335</u>
Total liabilities and net assets	<u>\$ 19,802,559</u>	<u>\$ 12,942,632</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue		
Contract and grant revenue	\$ 15,191,206	\$ 15,243,528
Expenses		
Program services		
Direct labor	5,886,830	6,148,943
Travel	96,796	103,554
Subcontract costs	4,136,382	3,837,443
Other direct costs	409,553	1,681,274
Facility cost allocated	<u>487,523</u>	<u>437,072</u>
Total program services expenses	11,017,084	12,208,286
Support services		
Overhead	3,017,333	1,775,857
General and administration	<u>2,772,522</u>	<u>1,953,482</u>
Total support services	5,789,855	3,729,339
Other (income) expenses		
Rental income	(115,390)	(31,145)
Facility expenses	368,560	46,206
Other unallowable expenses	273,577	16,735
Miscellaneous income	<u>(7,859)</u>	<u>(1,039)</u>
Total other (income) expenses	518,888	30,757
Total expenses	<u>17,325,827</u>	<u>15,968,382</u>
Change in net assets before contributions	(2,134,621)	(724,854)
Contribution	1,194,444	150,000
Contribution to equity	<u>4,384,460</u>	<u>-</u>
Change in net assets	3,444,283	(574,854)
Net assets		
Beginning of year	<u>2,435,335</u>	<u>3,010,189</u>
End of year	<u>\$ 5,879,618</u>	<u>\$ 2,435,335</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 3,444,283	\$ (574,854)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	602,749	761,448
Changes in operating assets and liabilities		
Billed accounts receivable	(365,529)	(1,506,431)
Unbilled accounts receivable	(986,189)	584,026
Other accounts receivable	167,113	(127,267)
Other current assets	(1,062,804)	(42,202)
Due from Wright State University	1,718,742	(111,610)
Accounts payable	12,469	117,723
Other payables	(1)	(108,506)
Accrued expenses	647,549	(146,108)
Due to Wright State University	(2,107,439)	3,547,223
Deferred revenue	<u>4,863,066</u>	<u>(2,808,390)</u>
Net cash used in operating activities	6,934,009	(414,948)
Cash flows from investing activities		
Purchases of property and equipment	<u>(1,518,162)</u>	<u>(344,445)</u>
Net cash used in investing activities	<u>(1,518,162)</u>	<u>(344,445)</u>
Increase (decrease) in cash and cash equivalents	5,415,847	(759,393)
Cash and cash equivalents, beginning of year	<u>3,290,934</u>	<u>4,050,327</u>
Cash and cash equivalents, end of year	<u>\$ 8,706,781</u>	<u>\$ 3,290,934</u>
Noncash transaction:		
Property and equipment donated by Wright State University	\$ -	\$ 150,000
Advances forgiven by Wright State University	4,384,460	-

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

WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 99% and 87% of government funding for 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015. As of June 30, 2016 and 2015, WSARC had uninsured deposits of approximately \$8,457,000 and \$3,000,000, 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). The cost and related accumulated depreciation of assets disposed of are eliminated from the accounts in the year of disposal.

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WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015.

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. At June 30, 2016 and 2015, the balance of deferred revenue relating to the state appropriation is \$7,503,496 and \$2,640,430, 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, 2016 and 2015, 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, 2016 and 2015.

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WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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, 2016 and 2015. 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 October 14, 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 751,085	\$ 751,085
Software for projects	1,569,274	1,311,643
Computers and hardware	4,844,492	4,815,364
Buildings and building improvements	2,212,474	2,181,153
Furniture and fixtures	1,155,637	217,206
Truck trailer	520,904	520,904
Equipment	<u>927,671</u>	<u>666,020</u>
Total property and equipment	11,981,537	10,463,375
Less accumulated depreciation	<u>6,930,866</u>	<u>6,328,117</u>
Net	<u>\$ 5,050,671</u>	<u>\$ 4,135,258</u>

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WRIGHT STATE APPLIED RESEARCH CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 – OTHER ASSETS

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. At June 30, 2016, the note receivable was converted into an option to purchase land.

NOTE 5 - RELATED PARTIES

During the year ended June 30, 2016, Wright State University forgave \$4,384,460 of their due from WSARC. This amount represents costs incurred by the University to cover short falls in operational costs incurred by WSARC. The shortfalls in operations were a result of indirect cost rates not fully covering operational costs. Indirect cost rates have been renegotiated in recent years. This is reflected as a contribution to equity by a related party on the Statement of Activities for the year ended June 30, 2016. There were no such activities during fiscal year 2015.

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, 2016 and 2015, respectively, are stated below.

	<u>2016</u>	<u>2015</u>
Due to Wright State University		
Accrued wages	\$ 5,019,168	\$ 7,126,607
Due from Wright State University		
Rent	-	813,000
Other	-	<u>905,742</u>
	<u>-</u>	<u>1,718,742</u>
Total due to Wright State University	<u>\$ 5,019,168</u>	<u>\$ 5,407,865</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, 2016 and 2015, no amounts were recognized as a liability under the financial guaranty in WSARC's statement of financial position.

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, 2016, 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 October 14, 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.

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
October 14, 2016



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
JANUARY 31, 2017**