

Wright State Applied Research Corporation

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Wright State Applied Research Corporation
312 Walnut Street, Suite 3000
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We have reviewed the *Independent Auditor's Report* of the Wright State Applied Research Corporation, Greene County, prepared by BKD, LLP, for the audit period July 1, 2019 through June 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 1, 2020

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Wright State Applied Research Corporation

June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Wright State Applied Research Corporation (WSARC), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright State Applied Research Corporation, as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 13, 2020, on our consideration of WSARC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of WSARC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WSARC's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
October 13, 2020

Wright State Applied Research Corporation
Statements of Financial Position
June 30, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,081,234	\$ 1,552,679
Billed accounts receivable	5,785,389	4,449,721
Unbilled accounts receivable	536,510	2,186,141
Prepaid expenses and other	93,512	64,915
Due from Wright State University	863,530	238,304
Other assets	-	300,000
Property and equipment, net	<u>3,619,905</u>	<u>3,668,530</u>
Total assets	<u>\$ 14,980,080</u>	<u>\$ 12,460,290</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 5,623,035	\$ 2,713,908
Line of credit	195	-
Due to Wright State University	2,848,335	3,620,514
Deferred revenue	<u>3,222,382</u>	<u>2,920,598</u>
Total liabilities	11,693,947	9,255,020

Net Assets Without Donor Restrictions

	<u>3,286,133</u>	<u>3,205,270</u>
Total liabilities and net assets	<u>\$ 14,980,080</u>	<u>\$ 12,460,290</u>

Wright State Applied Research Corporation

Statements of Activities Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue		
Contract and grant revenue	\$ 30,413,203	\$ 31,074,384
Commercial revenue	4,005	204,701
Rental income	186,382	43,461
Interest and other income	824	26,033
Total revenue	<u>30,604,414</u>	<u>31,348,579</u>
Expenses		
Program services		
Direct labor	5,471,717	4,437,734
Travel	151,553	237,662
Subcontract costs	11,845,465	17,396,168
Other direct costs	<u>6,517,932</u>	<u>2,562,540</u>
Total program services expenses	23,986,667	24,634,104
Support services expenses	<u>6,536,884</u>	<u>6,587,680</u>
Total expenses	<u>30,523,551</u>	<u>31,221,784</u>
Change in Net Assets	80,863	126,795
Net assets		
Beginning of year	<u>3,205,270</u>	<u>3,078,475</u>
End of year	<u>\$ 3,286,133</u>	<u>\$ 3,205,270</u>

Wright State Applied Research Corporation
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 80,863	\$ 126,795
Items not requiring operating activities cash flows		
Depreciation expense	475,635	443,783
Changes in		
Billed accounts receivable	(1,335,668)	(1,084,742)
Unbilled accounts receivable	1,649,631	738,734
Prepaid expenses and other	271,403	(1,165)
Due from Wright State University	(625,226)	219,286
Accounts payable and accrued expenses	2,909,127	(2,080,321)
Due to Wright State University	(772,179)	(2,970)
Deferred revenue	301,784	(2,247,865)
Net cash provided by (used in) operating activities	2,955,370	(3,888,465)
Investing Activity - purchases of property and equipment	(427,010)	(45,463)
Financing Activities		
Borrowings on line of credit	370,444	-
Payments on line of credit	(370,249)	-
Net cash provided by financing activities	195	-
Increase (Decrease) in Cash and Cash Equivalents	2,528,555	(3,933,928)
Cash and Cash Equivalents, Beginning of Year	1,552,679	5,486,607
Cash and Cash Equivalents, End of Year	\$ 4,081,234	\$ 1,552,679
Supplemental Cash Flows Information		
Interest paid	\$ 895	\$ -

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2020 and 2019

Note 1: Nature of Operations

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

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

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

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

Contract and Grant Revenue and Accounts and Notes Receivable

WSARC's principal revenue is derived from sponsored research contracts, which are primarily cost plus fixed fee in nature. Sponsored research contracts are agreements for specific research, which is performed for a sponsor. WSARC recognizes sponsored research contract revenue prorated based upon the costs incurred on each sponsored research contract. The prorated revenue closely approximates the percentage of work completed for each contract. Contract and grant revenue consists primarily of government funding for 2020 and 2019.

Accounts receivable are reflected for both billed and unbilled amounts based upon the work completed for a particular grant or contract. WSARC uses the allowance method to estimate uncollectible accounts and notes receivable in these two categories. The allowances, if any, are based on prior experience and management's analysis of specific contracts. Interest is not charged on any past due balances. As of June 30, 2020 and 2019, there was an allowance recorded of \$3,006 and \$20,000, respectively.

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019, WSARC had uninsured deposits of approximately \$4,384,000 and \$1,409,000, respectively.

Liquidity and Availability

All financial assets are available for general expenditures within one year of June 30, 2020 and 2019 and amounted to \$11,266,663 and \$8,426,845, respectively. The June 30, 2019 amount was revised for an immaterial error correction.

WSARC manages its liquidity following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient liquidity to provide reasonable assurance that long-term obligations will be discharged. WSARC monitors liquidity and cash flows on an on-going basis to ensure an appropriate amount of cash and cash equivalents are available to meet current expenditure needs.

Property and Equipment

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

Impairment of Long-Lived Assets

WSARC continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, WSARC estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. Management believes that there was no impairment of long-lived assets for the years ended June 30, 2020 and 2019.

Deferred Revenue

Cash received in advance of being earned is recorded as deferred revenue. In the subsequent period, when the revenue recognition criteria are met, revenue is recognized and the deferred revenue is reduced accordingly. The state of Ohio appropriated funds to WSARC for projects and activities that commenced in 2016. At June 30, 2020 and 2019, the balance of deferred revenue relating to the state appropriation is \$3,184,857 and \$2,877,733, respectively.

Wright State Applied Research Corporation

Notes to Financial Statements June 30, 2020 and 2019

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 two classes of net assets: with donor restrictions and without donor restrictions. Net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations or are designated for use by WSARC's Board of Directors.
- Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of WSARC and/or the passage of time or restricted in perpetuity.

As of June 30, 2020 and 2019, there are no donor restrictions on any of the net assets of WSARC and, therefore, all net assets are reflected as without donor restrictions.

University Support of WSARC

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

Income Tax

WSARC has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 (Code), as an organization described in Sections 501(c)(3) and 170(b)(1)(A)(ii) of the Code. However, WSARC is subject to federal income tax on any unrelated business taxable income.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires WSARC's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2020 and 2019

Contingencies

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

WSARC is subject to investigations by government agencies which may have adverse financial or operational impacts upon final resolution. The expected time of final resolution and any potential impacts of these investigations on WSARC are unknown at this time.

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

Functional Allocation of Expenses

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

Subsequent Events

Subsequent events have been evaluated through October 13, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of WSARC. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

In December 2019, WSARC's board of directors approved actions to plan discussions with the University in early 2020 about the future relationship between WSARC and the University once the existing affiliation agreement with the University expires on October 23, 2020, as well as to pursue affiliations with other universities. Subsequent to June 30, 2020, WSARC extended offers of employment to all of the University employees supporting WSARC business. The WSARC Board and the University are in negotiations to establish the terms of their relationship upon the expiration of the affiliation agreement. The financial effects of this negotiation and the future arrangement with the University is unknown at this time. However, it is acknowledged that the overwhelming majority of WSARC revenue for the year ended June 30, 2020 resulted from contracts with unaffiliated organizations, and only 6% is associated with University grants or programs.

Wright State Applied Research Corporation

Notes to Financial Statements June 30, 2020 and 2019

Note 3: Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 751,085	\$ 751,085
Software for projects	703,049	703,049
Computers and hardware	2,375,889	2,360,639
Buildings and building improvements	2,551,679	2,167,474
Furniture and fixtures	1,328,680	1,301,124
Truck trailer	520,904	520,904
Equipment	<u>1,011,644</u>	<u>1,011,644</u>
	9,242,930	8,815,919
Less accumulated depreciation	<u>5,623,025</u>	<u>5,147,389</u>
	<u>\$ 3,619,905</u>	<u>\$ 3,668,530</u>

Note 4: Other Assets

On June 26, 2015, WSARC converted a \$300,000 note receivable from the Miami Valley Research Foundation into an option to purchase a proportionate share of approximately 125 acres of land located in Greene County, Ohio. The \$300,000 consideration was returned to WSARC during the year ended June 30, 2020.

Note 5: Line of Credit

In February 2020, WSARC established a \$2,000,000 revolving line of credit with a bank expiring in February 2021. The line is collateralized by substantially all of the WSARC's assets. Interest is payable monthly at the one-month LIBOR rate plus an applicable margin (rate was 2.75% at June 30, 2020). WSARC is required to meet certain covenants contained in its debt agreement. At June 30, 2020, management is not aware of any violations of the covenants. At June 30, 2020, WSARC owed \$195 on the line of credit. In September 2020, the bank placed a restriction on additional borrowings from the line of credit following a University inquiry into the board of directors action to approve the establishment of the line of credit.

Wright State Applied Research Corporation

Notes to Financial Statements June 30, 2020 and 2019

Note 6: Related Parties

In accordance with a shared services agreement, WSARC is responsible for reimbursing the University for subsequent direct and certain indirect costs incurred by the University related to sponsored research contracts managed by WSARC. Total expenses recorded related to the University were \$10,141,666 and \$11,261,220 for the years ended June 30, 2020 and 2019, respectively. In addition, WSARC recognizes revenue for space leased to the University in WSARC's building on a month-to-month basis and reimbursement of WSARC expenses incurred on University grants. Total revenue recorded from the University was \$1,920,272 and \$2,015,178 for the years ended June 30, 2020 and 2019, respectively. The balances owed to and due from the University at June 30, 2020 and 2019, respectively, are stated below.

	<u>2020</u>	<u>2019</u>
Due to Wright State University	<u>\$ 2,848,335</u>	<u>\$ 3,620,514</u>
Due from Wright State University	<u>\$ 863,530</u>	<u>\$ 238,304</u>

Note 7: Note Receivable

WSARC issued a note receivable to Advanced Technical Intelligence Center for Human Capital Development (ATIC) on December 1, 2016, for \$1,404,119. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of \$2,500 are due until the earlier of December 31, 2021, or the date ATIC sells its real property located in Greene County, Ohio, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full. In 2018, the note became due upon ATIC selling certain real property and is in default on the note. The parties have entered into a forbearance agreement whereby WSARC has agreed to forbear the exercising its rights and remedies under the note in exchange for ATIC agreeing to certain terms and conditions including a payment schedule during the forbearance period, which expired on October 1, 2020. At June 30, 2020 and 2019, principal amounts of approximately \$1,112,000 and \$1,125,000 were outstanding on this note, respectively. At June 30, 2020 and 2019, the allowance related to this note was approximately \$1,112,000 and \$1,125,000, respectively.

Wright State Applied Research Corporation

Notes to Financial Statements June 30, 2020 and 2019

Note 8: Functional Expenses

WSARC's only function is the operation as a contracting entity, and all expenses are reported accordingly. Natural classification is as follows for years ended June 30, 2020 and 2019:

	2020			2019		
	Program	Support	Total	Program	Support	Total
Personnel costs	\$ 5,471,717	\$ 3,591,503	\$ 9,063,220	\$ 4,437,735	\$ 3,740,461	\$ 8,178,196
Subcontracting costs	11,845,465	1,377,821	13,223,286	17,396,168	1,373,807	18,769,975
Travel and entertainment	151,553	33,018	184,571	237,662	39,139	276,801
Occupancy	-	232,230	232,230	-	287,451	287,451
Depreciation	6,947	468,688	475,635	9,841	433,942	443,783
Postage, telephone and supplies	96,109	511,759	607,868	100,272	530,918	631,190
Insurance	-	120,249	120,249	-	131,266	131,266
Equipment and material	2,819,758	-	2,819,758	1,242,839	-	1,242,839
Miscellaneous expense	3,595,118	201,616	3,796,734	1,209,587	50,696	1,260,283
	<u>\$ 23,986,667</u>	<u>\$ 6,536,884</u>	<u>\$ 30,523,551</u>	<u>\$ 24,634,104</u>	<u>\$ 6,587,680</u>	<u>\$ 31,221,784</u>

Note 9: Operating Lease

WSARC leased approximately 19,000 square feet of office building space in 2018 in direct support of a U.S. Government contract. All costs related to this office space are fully reimbursable under the terms of the contract including the \$472,000 annual lease cost. In May 2019, WSARC proposed a follow-on contract resulting in an award, which required the acquisition of additional leased space of approximately 20,000 sq. ft. The initial term of the lease agreement ends in September 2022 with two options to extend through June 2023 and May 2024, respectively. All lease payments in 2022 through 2024 and option years align with the base and option years of the contract. There is an additional building lease in 2020.

Future lease payments associated with this lease will also be fully reimbursed as a part of the new government contact are as follows:

2021	\$ 1,909,005
2022	900,221
2023	900,221
2024	825,202

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2020 and 2019

Note 10: Future Accounting Pronouncements

Revenue Recognition

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

The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods. The standard is effective for WSARC for the year ending June 30, 2021. WSARC is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The standard is effective for WSARC for the year ending June 30, 2023. WSARC is evaluating the impact the standard will have on the financial statements; however, the standard could have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wright State Applied Research Corporation (WSARC), which comprise the statement of financial position as of June 30, 2020, 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 13, 2020.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WSARC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

WSARC's Response to Findings

WSARC's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. WSARC's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

BKD, LLP

Cincinnati, Ohio
October 13, 2020

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2020

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2020-001	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective control over financial reporting, including preparing annual financial statements in accordance with generally accepted accounting principles.</p> <p>Condition - Management had not implemented effective internal controls over financial reporting.</p> <p>During our audit, we identified the following items:</p> <p style="padding-left: 40px;"><i>Amounts Due to/from Wright State University</i></p> <p style="padding-left: 40px;">WSARC's amount due to/from Wright State University was not in agreement with balances reported by the University. Upon investigation of this matter, management noted items requiring adjustment to its ledger.</p> <p style="padding-left: 40px;"><i>Reconciliation of Unbilled Accounts Receivable</i></p> <p style="padding-left: 40px;">WSARC's management noted that following our requests to inspect supporting information for certain unbilled receivable balances, correcting entries to the ledger were needed.</p> <p style="padding-left: 40px;"><i>Labor Accruals</i></p> <p style="padding-left: 40px;">There was an inappropriate accrual for labor costs recorded to the ledger. Upon investigation, management determined a correcting entry was required.</p> <p>Effect - The financial statements could have been materially misstated due to lack of establishing and maintaining effective control over financial reporting.</p> <p>Cause - Review of key balances is not effective.</p> <p>Recommendation - We recommend management implement processes and controls to:</p> <ul style="list-style-type: none">• Reconcile amounts due to and from the University• Review unbilled accounts receivable monthly• Review all trial balance accounts for efficacy

Wright State Applied Research Corporation
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	<p style="text-align: center;"><i>Views of Responsible Officials and Planned Corrective Actions –</i></p> <p>Amounts Due to Wright State University</p> <p>Monthly reconciliation meetings were resumed effective November 2019 and monthly results were shared with University leadership. However, this alone was not sufficient to reconcile between the parties. As noted during investigation by WSARC and the University, WSARC and the University identified additional items and reconciled them. Similar to prior years, the adjustments were made prior to the completion of the audit.</p> <p>Reconciliation of Unbilled Accounts Receivable</p> <p>During fiscal year 2020, WSARC updated and implemented processes to review unbilled accounts each month focusing on the current month. While further reviewing the fiscal year financials, WSARC created new tools during the audit window and has updated processes to reconcile the unbilled receivable accounts for each project every month from program inception to current period.</p> <p>Labor Accruals</p> <p>Due to the nature of the labor arrangement with the University, WSARC takes steps to either sync or “zero” out several accounts. WSARC will add the WSU accrued wages account to the list. WSARC has been unable to fill the financial controller position over the past year due to a number of reasons. WSARC will aggressively recruit to fill the Financial Controller opening not later than 45 days after separation from WSU and they will lead the monthly review of accounts.</p> <p>WSARC will add an additional step to have the audit committee or designated third-party review and confirm that the improvements outlined were satisfactorily implemented and resolve the listed items. As it relates to the ongoing recruitment of a Financial Controller, WSARC has engaged an executive recruitment firm to fill this role with a qualified candidate that has the requisite government accounting background.</p>

Wright State Applied Research Corporation
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
2019-001	Management is responsible for establishing and maintaining effective control over financial reporting, including preparing annual financial statements in accordance with generally accepted accounting principles.	Unresolved – See Finding 2020-001

OHIO AUDITOR OF STATE KEITH FABER



WRIGHT STATE APPLIED RESEARCH CORPORATION

GREENE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



Certified for Release 12/15/2020

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This report is a matter of public record and is available online at
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