

# **Wright State Applied Research Corporation**

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018





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Board of Directors  
Wright State Applied Research Corporation  
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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, 2018 through June 30, 2019. 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.

Keith Faber  
Auditor of State  
Columbus, Ohio

February 5, 2020

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# Wright State Applied Research Corporation

June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 23, 2019, 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 23, 2019



**Wright State Applied Research Corporation**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,552,679	\$ 5,486,607
Billed accounts receivable	4,449,721	3,364,979
Unbilled accounts receivable	2,186,141	2,924,875
Prepaid expenses and other	64,915	63,748
Due from Wright State University	238,304	457,590
Other assets	300,000	300,000
Property and equipment, net	3,668,530	4,066,852
Total assets	\$ 12,460,290	\$ 16,664,651

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 2,713,908	\$ 4,794,229
Due to Wright State University	3,620,514	3,623,484
Deferred revenue	2,920,598	5,168,463
Total liabilities	9,255,020	13,586,176
<b>Net Assets Without Donor Restriction</b>	3,205,270	3,078,475
Total liabilities and net assets	\$ 12,460,290	\$ 16,664,651

**Wright State Applied Research Corporation**  
**Statements of Activities**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenue</b>		
Contract and grant revenue	\$ 31,074,384	\$ 28,720,428
Commercial revenue	204,701	295,267
Rental income	43,461	320,088
Interest and other income	26,033	71,609
Total revenue	31,348,579	29,407,392
<b>Expenses</b>		
Program services		
Direct labor	4,437,734	4,159,186
Travel	237,662	305,287
Subcontract costs	17,396,168	18,351,666
Other direct costs	2,562,540	1,210,595
Total program services expenses	24,634,104	24,026,734
Support services expenses	6,587,680	6,051,247
Bad debt expense on note receivable	-	1,273,000
Total expenses	31,221,784	31,350,981
<b>Change in Net Assets</b>	126,795	(1,943,589)
Net assets		
Beginning of year	3,078,475	5,022,064
End of year	\$ 3,205,270	\$ 3,078,475

**Wright State Applied Research Corporation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Activities</b>		
Change in net assets	\$ 126,795	\$ (1,943,589)
Items not requiring operating activities cash flows		
Depreciation expense	443,783	903,692
Bad debt expense	-	1,273,000
Changes in		
Billed accounts receivable	(1,084,742)	(1,247,383)
Unbilled accounts receivable	738,734	(746,402)
Prepaid expenses and other	(1,165)	20,554
Due from Wright State University	219,286	554,047
Accounts payable and accrued expenses	(2,080,321)	681,332
Due to Wright State University	(2,970)	668,529
Deferred revenue	(2,247,865)	(6,244,902)
Net cash used in operating activities	(3,888,465)	(6,081,122)
<b>Investing Activities</b>		
Principal payments received on note receivable	-	30,000
Purchases of property and equipment	(45,463)	(487,521)
Net cash used in investing activities	(45,463)	(457,521)
<b>Decrease in Cash and Cash Equivalents</b>	(3,933,928)	(6,538,643)
<b>Cash and Cash Equivalents, Beginning of Year</b>	5,486,607	12,025,250
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,552,679	\$ 5,486,607

# Wright State Applied Research Corporation

## Notes to Financial Statements

June 30, 2019 and 2018

### 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 2019 and 2018.

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, 2019 and 2018, there was an allowance recorded of \$20,000 and \$30,208, respectively.

# Wright State Applied Research Corporation

## Notes to Financial Statements June 30, 2019 and 2018

### ***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, 2019 and 2018, WSARC had uninsured deposits of approximately \$1,409,000 and \$6,712,000, respectively.

### ***Liquidity and Availability***

All financial assets are available for general expenditures within one year of June 30, 2019 and 2018 and amounted to \$8,491,760 and \$12,297,799, respectively.

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, 2019 and 2018.

### ***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, 2019 and 2018, the balance of deferred revenue relating to the state appropriation is \$2,877,733 and \$4,700,849, respectively.

# Wright State Applied Research Corporation

## Notes to Financial Statements

June 30, 2019 and 2018

### **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, 2019 and 2018, 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, 2019 and 2018

### **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.

### **Change in Accounting Principle**

In 2019, WSARC adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes impacting WSARC is as follows:

#### ***Statement of Financial Position***

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

#### ***Notes to the Financial Statements***

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total change in net assets.

# Wright State Applied Research Corporation

## Notes to Financial Statements June 30, 2019 and 2018

### **Subsequent Events**

Subsequent events have been evaluated through October 23, 2019, which is the date the financial statements were available to be issued.

### **Reclassifications**

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the changes in net assets.

### **Note 3: Property and Equipment**

Property and equipment consist of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Land	\$ 751,085	\$ 751,085
Software for projects	703,049	703,049
Computers and hardware	2,360,639	2,354,149
Buildings and building improvements	2,167,474	2,167,474
Furniture and fixtures	1,301,124	1,301,124
Truck trailer	520,904	520,904
Equipment	1,011,644	972,670
	<u>8,815,919</u>	<u>8,770,455</u>
Less accumulated depreciation	5,147,389	4,703,603
	<u>\$ 3,668,530</u>	<u>\$ 4,066,852</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 option expires on June 9, 2020. If the option is not exercised, the \$300,000 consideration paid will be returned to WSARC.



# Wright State Applied Research Corporation

## Notes to Financial Statements June 30, 2019 and 2018

### Note 5: 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 \$11,261,220 and \$11,124,963 for the years ended June 30, 2019 and 2018, respectively. In addition, WSARC recognizes revenue for space leased to the University in WSARC's building on a month-to-month basis and reimbursement of WSARC expenses incurred on University grants. Total revenue recorded from the University was \$2,015,178 and \$2,420,743 for the years ended June 30, 2019 and 2018, respectively. The balances owed to and due from the University at June 30, 2019 and 2018, respectively, are stated below.

	<u>2019</u>	<u>2018</u>
Due to Wright State University - accrued wages	<u>\$ 3,620,514</u>	<u>\$ 3,623,484</u>
Due from Wright State University		
Rent	\$ 1,423	\$ 10,964
Other	<u>236,881</u>	<u>446,626</u>
Total due from Wright State University	<u>\$ 238,304</u>	<u>\$ 457,590</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, 2019 and 2018, no amounts were recognized as a liability under the financial guaranty in WSARC's statements of financial position. On June 7, 2018, WSARC obtained a release of this guaranty.

### Note 7: Note Receivable

WSARC issued a note receivable to Advanced Technical Intelligence Center for Human Capital Development (ATIC) on December 1, 2016, for \$1,404,119. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of \$2,500 are due until the earlier of December 31, 2021, or the date ATIC sells its real property located in Greene County, Ohio, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full. At June 30, 2019 and 2018, principal amounts of approximately \$1,125,000 and \$1,273,000 were outstanding on this note, respectively. As of June 30, 2018, WSARC determined the note was uncollectable and established a corresponding allowance. At June 30, 2019 and 2018, the allowance related to this note was approximately \$1,125,000 and \$1,273,000, respectively.

**Wright State Applied Research Corporation**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**Note 8: Functional Expenses**

WSARC's only function is the operation as the contracting entity for Wright State Research Institute, a department of the University, and all expenses are reported accordingly. Natural classification is as follows for years ended June 30, 2019 and 2018:

	2019			2018		
	Program	Support	Total	Program	Support	Total
Personnel costs	\$ 4,437,735	\$ 3,740,461	\$ 8,178,196	\$ 4,159,186	\$ 3,575,510	\$ 7,734,696
Subcontracting costs	17,396,168	1,373,807	18,769,975	18,351,667	957,742	19,309,409
Travel and entertainment	237,662	39,139	276,801	305,287	46,327	351,614
Occupancy	-	287,451	287,451	-	104,254	104,254
Depreciation	9,841	433,942	443,783	3,473	900,219	903,692
Postage, telephone and supplies	100,272	530,918	631,190	9,276	361,136	370,412
Insurance	-	131,266	131,266	-	83,681	83,681
Equipment and material	1,242,839	-	1,242,839	831,177	-	831,177
Miscellaneous expense	1,209,587	50,696	1,260,283	366,668	22,378	389,046
	<u>\$ 24,634,104</u>	<u>\$ 6,587,680</u>	<u>\$ 31,221,784</u>	<u>\$ 24,026,734</u>	<u>\$ 6,051,247</u>	<u>\$ 30,077,981</u>

**Note 9: Operating Lease**

WSARC leased approximately 19,000 square feet of office building space in 2018 in direct support of a US 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 and option years align with the base and option years of the contract.

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

2020	\$	900,221
2021		900,221
2022		900,221
2023		900,221
2024		900,221

# Wright State Applied Research Corporation

## Notes to Financial Statements

June 30, 2019 and 2018

### 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 beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). WSARC is in the process of evaluating the impact the amendment will have on the financial statements.

#### ***Accounting for Leases***

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Financial Accounting Standards Board has an outstanding comment letter that would delay the effective date to annual periods that begin after December 15, 2020. WSARC is evaluating the impact the standard will have on the financial statements.

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

**Independent Auditor's Report**

Board of Directors  
Wright State Applied Research Corporation  
Dayton, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wright State Applied Research Corporation (WSARC), which comprise the statement of financial position as of June 30, 2019, 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 23, 2019.

***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 2019-001 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 23, 2019

**Wright State Applied Research Corporation**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2019**

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
2019-001	<p><b><i>Criteria or Specific Requirement</i></b> - 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><b><i>Condition</i></b> - 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 Wright State University</i></p> <p style="padding-left: 40px;">During our audit, we noted WSARC's amount due to Wright State University was not in agreement with balances reported by the University. Upon investigation of this matter, management noted a series of closing entries were not completed.</p> <p style="padding-left: 40px;"><i>Reconciliation of Unbilled Accounts Receivable</i></p> <p style="padding-left: 40px;">Management did not complete a reconciliation of the unbilled accounts receivable balance by project nor properly reclassify credit balances to deferred revenue.</p> <p style="padding-left: 40px;"><i>Revenue Recognition for Educational Courses</i></p> <p style="padding-left: 40px;">Management did not properly defer revenue related to uncompleted educational courses as of year end.</p> <p style="padding-left: 40px;"><i>Accounts Payable Cutoff</i></p> <p style="padding-left: 40px;">Management did not properly identify and record certain legal expenses as of year end.</p> <p><b><i>Effect</i></b> - The financial statements could have been materially misstated due to lack of establishing and maintaining effective control over financial reporting.</p> <p><b><i>Cause</i></b> - WSARC has experienced recent turnover in its business office.</p> <p><b><i>Recommendation</i></b> - We recommend management implement processes and controls to:</p> <ul style="list-style-type: none"> <li>• Reconcile amounts due to and from the University</li> <li>• Reconcile unbilled accounts receivable</li> <li>• Properly defer revenue related to educational courses</li> <li>• Properly accrue payables into the correct reporting period</li> </ul>

**Wright State Applied Research Corporation**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended June 30, 2019**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
	<p style="text-align: center;"><i>Views of Responsible Officials and Planned Corrective Actions -</i></p> <p><u>Reconcile Amounts Due to and From the University</u></p> <p>As noted during investigation by WSARC with input from the University, WSARC identified and reconciled balances with University records associated with undisputed expenses that had not yet been invoiced by the University. WSARC and the University will work together to update this process and reconvene the monthly reconciliations which ended in December of 2018. Similar to FY 2018, the adjustments were made prior to the completion of the audit.</p> <p><u>Reconcile Unbilled Accounts Receivable</u></p> <p>As part of the reconciliation referenced above, WSARC reviewed records going back to 2012 and identified an issue from 2016 within the subsidiary ledger that was impacting the reconciliation of balances in the deferred revenue accounts. Applying those adjustments to the proper accounts reconciled the deferred revenue. It should also be pointed out that while there were variances noted in the reconciliation of the subsidiary ledgers and the general ledger, the general ledger that is used to generate the entity's financial statements was correct. As a best practice, WSARC will update processes to reconcile the unbilled receivable account by project each month. Any unrealizable revenue identified will be written down when deemed probable.</p> <p><u>Properly Defer Revenue Related to Educational Courses</u></p> <p>WSARC will defer revenue for any uncomplete courses each month. The value of about \$30,000 was deemed to be immaterial to the financial statements as a whole.</p> <p><u>Properly Accrue Payables Into the Correct Reporting Period</u></p> <p>WSARC received an invoice on July 25<sup>th</sup> after the Account Payable Cutoff for certain legal expenses incurred prior to June 30<sup>th</sup>. Those expenses were processed in July. The value of about \$17,000 was deemed to be immaterial to the financial statements as a whole.</p> <p>WSARC will add an additional step to its financial process and have an outside 3rd party CPA complete quarterly reviews of our financial processes and financial statements to ensure that we are properly accruing revenue and expenses in the appropriate periods. In addition, the 3rd party CPA will review and audit our financial processes, procedures and financial statement at least quarterly beginning November 1, 2019.</p>



# OHIO AUDITOR OF STATE KEITH FABER



**WRIGHT STATE APPLIED RESEARCH CORPORATION**

**GREENE COUNTY**

### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 18, 2020**