WRIGHT STATE UNIVERSITY

Annual Report

For Year Ended

June 30, 2005

Office of the Controller
3640 Colonel Glenn Hwy.
Dayton, OH 45435-0001

WRIGHT STATE UNIVERSITY
Annual Report
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2005

Wright State University's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2005 with selected comparative information for the years ended June 30, 2004 and 2003. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

Financial and Other University Highlights

- The University adopted Governmental Accounting Standards Board (GASB) Statement No. 40 in 2005 which expanded the university's disclosures of investments that have values that are sensitive to changes in interest rates.

- State appropriations for all purposes other than OhioLINK (a statewide library initiative for which the University serves as fiscal agent) fell by $1.8 million in 2005 from 2004. State appropriations were $.6 million less in 2004 from 2003. The University continues to experience a downward trend in support from the State of Ohio.

- Because State support continues to decline, the University was forced to increase tuition by 9.9 percent for all students except the School of Medicine, which increased 12.9 percent. These increases still enable the University to maintain the fourth lowest in-state undergraduate tuition rate among the State of Ohio's thirteen four-year public institutions.

- Net assets increased $13.3 million at June 30, 2005 from June 30, 2004. Unrestricted net assets increased $16.7 million which can be attributed to favorable revenue variances (primarily tuition and fees and investment income), unspent budgets, and the University reimbursing itself with debt proceeds for expenditures made in 2004.

- In December 2004 the University issued $32.3 million of general receipts bonds at an effective interest rate of 4.03 percent. The bonds were issued to supplement other funding sources for the renovation and expansion of science facilities and laboratories, renovation of the Student Union and Frederick A. White Center, construction of various parking and road improvements, and the purchase and installation of an administrative software system.

- Fall 2004 student headcount as well as annual full time equivalent (FTE) students increased 1.3 percent from the prior year.

- For the 26th consecutive year, top honors went to Wright State students at the National Model United Nations (NMUN) conference. The NMUN is the largest intercollegiate conference of its kind as students from all over the world participate in the conference.

- The University continues to raise funds as part of its fundraising campaign entitled "*Tomorrow Takes Flight: The Campaign for Wright State University*". Through June 30, 2005 the University has raised almost $93 million. The campaign had set an original goal of raising $40 million in operating and endowment funds for student scholarships, faculty development, facility improvements, program support, and to increase institutional endowments. Due to the continuing success of the campaign, the University will continue the campaign through 2006.

- For the third year in a row, Wright State undergraduate and graduate teams won top honors at the annual National Case Competition, sponsored by the Society for the Advancement of Management. In addition, university students placed fifth in the National Intercollegiate Ethics Bowl, finishing in the top ten for the fifth consecutive year.

- The University continued with the implementation of its new Enterprise Resource Planning (ERP) System. While the project in total replaces all administrative information systems within the University, including financial, human resource/payroll, student, and advancement and fund-raising systems, 2005 saw the culmination of the finance module implementation as it went “live” on July 1, 2005. Other modules have scheduled implementation dates that occur during calendar 2006.

Using the Annual Report

This annual report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. These financial statements are prepared in accordance with GASB Statement No. 35, *Basic Financial Statements-and Management’s Discussion and Analysis-For Public Colleges and Universities*. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. All comments and discussions included in this discussion and analysis relate only to Wright State University and not to the Wright State University Foundation unless specifically noted.

The three financial statements should help the reader of the annual report determine whether the university’s overall financial condition has improved or deteriorated as a result of the current year’s financial activities. These financial statements present similar information to that disclosed in private sector (i.e. corporate) financial statements. The financial statements will also assist the reader in evaluating the ability of the University to meet its financial obligations. The Statements of Cash Flows presents information related to both cash inflows and cash outflows and is further categorized by operating, noncapital financing, capital and related financing, and investing activities.

Statements of Net Assets

The Statements of Net Assets, which reports all assets and liabilities of the University, presents the financial position of the University at the end of the fiscal year. Our net assets are simply the difference between total assets and total liabilities. The change in net assets during the fiscal year is an indicator of the change in the overall financial condition of the University during the year. A summary of the university’s assets, liabilities, and net assets as of June 30 is as follows:

	2005	2004	2003
	(All dollar amounts in thousands)		
Current assets	$ 84,496	$ 89,141	$ 87,489
Noncurrent assets:			
Capital assets, net	228,641	227,257	225,160
Other	119,148	74,926	70,772
Total assets	432,285	391,324	383,421
Current liabilities	64,926	65,961	66,355
Noncurrent liabilities	51,114	22,406	24,384
Total liabilities	116,040	88,367	90,739
Net assets:			
Invested in capital assets, net of related debt	206,594	210,772	209,916
Restricted	22,321	21,515	21,390
Unrestricted	87,330	70,670	61,376
Total net assets	$ 316,245	$ 302,957	$ 292,682

The summary indicates a strong growth in net assets, particularly unrestricted net assets. This is a reflection of the university's management style. It is a combination of prudent spending, which resulted in savings over budgeted expenses, as well as favorable revenue variances as a result of both conservative budgeting and favorable student enrollment mixes. With the current trend of reducing State support, the University has been more careful to position itself financially to absorb the State's ever decreasing commitment to higher education while continuing to fund the strategic initiatives it feels are critical for continued success.

Total assets have increased $41.0 million in 2005 over 2004. *Current assets*, comprised primarily of cash and operating investments, student and sponsor receivables, and prepaid expenses, actually decreased by $4.6 million in 2005. This is the result of a combination of items. Accounts receivable increased by almost $2.8 million, primarily because of amounts owed to the University by the State of Ohio for capital construction that was performed late in the year. The majority of the university's accounts receivable, though, is comprised of both student accounts and sponsor accounts from research and other sponsored activities. The overall increase in accounts receivable was offset by decreases in both prepaid expenses and cash and operating investments. Prepaid expenses, primarily comprised of prepaid license agreements made on behalf of OhioLINK decreased from $11.0 million in 2004 to $7.4 million in 2005. OhioLINK is a statewide library program for which the University is the fiscal agent. Cash and operating investments also decreased from $51.1 million in 2004 to $47.2 million in 2005. This is primarily the result of a rebalancing of the investment portfolio as overall cash and investments actually increased.

Other assets increased $44.2 million from $74.9 million in 2004 to $119.1 million in 2005. Other assets are comprised of long-term investments, long-term student loans receivable, longer term prepaid expenses, and restricted cash. $26.1 million of the increase is the result of unspent bond proceeds from a December 2004 bond issuance. These funds will be spent over the next two fiscal years. Long-term investments increased from $57.7 million in 2004 to $70.3 million in 2005 as a result of both increased resources and the rebalancing of the university's investment portfolio to shift more assets to longer term investment vehicles. There was a minimal increase of $1.4 million in capital assets (net of depreciation) in 2005.

The 2004 increase in total assets was $7.9 million over 2003 with no significant changes in balances.

Total assets of the Wright State University Foundation increased from $61.4 million at June 30, 2004 to $97.3 million at June 30, 2005, an increase of $35.9 million. Of the $97.3 million, investments comprise $81.4 million and gifts and pledges receivable comprise another $12.4 million. Investments rose approximately $34.4 million over its 2004 level, primarily due to the outstanding success of the current fundraising campaign coupled with positive returns generated in the investment market.

Current liabilities are comprised primarily of accounts payables and accrued liabilities, deferred revenues from both student fees and advance payments for contracts and grants, and the current portion of long-term liabilities. These liabilities decreased from $66.0 million at June 30, 2004 to $64.9 million at June 30, 2005. Accounts payable and accrued liabilities together increased $1.0 million from $19.5 million to $20.5 million. The current portion of long-term liabilities increased $1.9 million due to an increase in debt service payments in 2006 stemming from the issuance of general receipts bonds in December 2004. These increases are offset by a decrease of $3.9 million in deferred revenues from $38.8 million in 2004 to $34.9 million in 2005 primarily as a result of a decrease in advance payments from sponsors.

Current liabilities in total decreased from $66.4 million at June 30, 2003 to $66.0 million at June 30, 2004. This decrease was a mix of a large decrease in accounts payable in 2004 caused by a large decrease in investment trade payables offset by a 2004 increase in deferred revenues from additional advance sponsor payments.

Noncurrent liabilities were $51.1 million at June 30, 2005 and $22.4 million at June 30, 2004. The 2005 increase of $28.7 million resulted from the University issuing $32.3 million of general receipts bonds.

Net assets represent what is left of the university's assets after deducting liabilities. A more detailed summary of the university's net assets as of June 30 is as follows:

	2005	2004	2003
	(All dollar amounts in thousands)		
Invested in capital assets, net of related debt	$ 206,594	$ 210,772	$ 209,916
Restricted:			
Nonexpendable	1,364	1,364	1,364
Expendable	20,957	20,151	20,026
Unrestricted:			
Designated	82,999	70,413	64,660
Undesignated	4,331	257	(3,284)
Total net assets	$ 316,245	$ 302,957	$ 292,682

Invested in capital assets, net of related debt represents the university's capital assets after subtracting accumulated depreciation and the principal amount of outstanding debt attributable to the acquisition, construction or improvement of those assets. Actual capital activity was light in both fiscal 2005 and 2004. The University continued with the implementation of its new administrative software system begun in 2004 and continued with routine annual investments to its buildings and facilities. In December 2004 the University also issued general receipts bonds for projects that will begin in fiscal 2006.

Restricted nonexpendable represents the university's permanent endowments. It does not include the endowments held by the Wright State University Foundation, to which all new gifts are directed. *Restricted expendable* represents funds that are externally restricted to specific purposes, such as student loans or sponsored projects. $18.0 million and $17.1 million of the restricted expendable fund balances at June 30, 2005 and June 30, 2004, respectively, represent funds restricted for student loans.

Unrestricted net assets are funds that the University has at its disposal to use for whatever purposes it determines appropriate. While these net assets are not subject to external restrictions, the University has designated these funds internally for various academic, research, student aid, and capital purposes. Each year the majority of any increase in fund balance is designated for one of these purposes. Colleges and divisions are able to retain their own budgeted funds that are not spent at the close of the fiscal year. We believe this practice permits the units to manage their resources more effectively, allowing them to hold them for higher priorities in later years. This policy also benefits the University as a whole by encouraging the accumulation of reserves that provide financial stability during periods of fiscal stress and that generate investment income that supplements other revenue sources. In addition, it also supports the goal of increased university reserves that is contained in the university's financial policy. Surpluses generated outside of the specific colleges and divisions (i.e. general university surpluses) are typically designated for specific university projects.

Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets present the results of operations for the University. A summary of the university's revenues, expenses and changes in net assets for the year ended June 30 is as follows:

	2005	2004	2003
	(All dollar amounts in thousands)		
Operating Revenues:			
Student tuition & fees - net	$ 99,537	$ 87,295	$ 75,804
Grants and contracts	87,854	79,657	71,974
Sales and services	7,429	6,828	7,123
Auxiliary enterprises	14,444	14,871	13,154
Other	1,746	1,785	1,600
Total	211,010	190,436	169,655
Operating expenses	305,434	284,227	266,425
Operating loss	(94,424)	(93,791)	(96,770)
Nonoperating revenues (expenses):			
State appropriations	93,099	91,725	92,302
Gifts	5,224	4,970	4,679
Investment income	4,966	3,565	3,036
Interest expense	(1,058)	(657)	(637)
Other income (expense)	2	(13)	(230)
Capital appropriations	4,678	3,447	6,481
Capital grants	801	1,029	1,444
Total	107,712	104,066	107,075
Increase in net assets	13,288	10,275	10,305
Net assets - beginning of year	302,957	292,682	282,377
Net assets - end of year	$ 316,245	$ 302,957	$ 292,682

Interpretation of the university's Statements of Revenues, Expenses, and Changes in Net Assets is complicated by the fact that Wright State University serves as the fiscal agent for the statewide library program known as OhioLINK. This program's revenues from state appropriations, federal pass-through grants (Grants and contracts) and from other college and university libraries (Grants and contracts) and expenses are all included in our financial statements. At certain points in this analysis, we present information net of OhioLINK revenues or expenditures. The total revenues and expenses attributable to OhioLINK are as follows:

OhioLINK Revenues and Expenses
For the Year Ended June 30

	2005	2004	Difference	Percent Increase (Decrease)
Revenues:				
Grants and contracts	$ 25,842,299	$ 20,077,437	$ 5,764,862	28.7%
State appropriations	8,374,846	5,159,550	3,215,296	62.3%
Total revenues	$ 34,217,145	$ 25,236,987	$ 8,980,158	35.6%
Expenses:				
Total OhioLINK	$ 34,217,145	$ 25,236,987	$ 8,980,158	35.6%

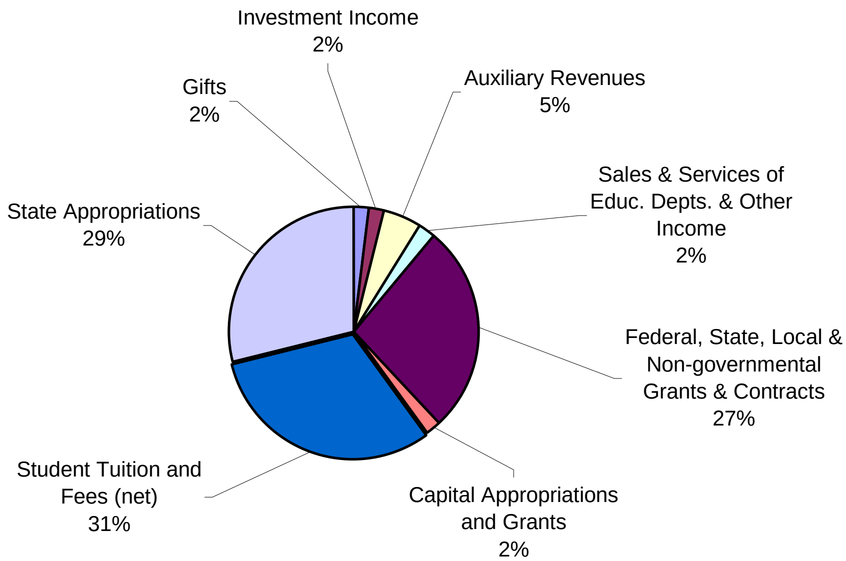
The University relies primarily on state appropriations and student tuition and fees to fund the ongoing programs and operations of the University. Although accounting standards classify state appropriations as a nonoperating revenue source, the University continues to rely upon it as a primary funding source and therefore manages it as an operating revenue item. Unfortunately , each year this source becomes a smaller and smaller fraction of total revenues. For the first time ever in 2005, the amount of net student tuition and fees (**after** deducting $22.2 million of financial aid awards from the students' original charges) actually exceeded state appropriations. State appropriations had always been viewed as our primary funding source. Unfortunately, especially during the new millennium, total state appropriations have been declining continually. These reduced funding levels have required the University to rely more and more on student tuition and fees. As the table below demonstrates, the State of Ohio over the past two decades has forced universities to shift the burden for funding the cost of higher education to students and their families.

State Appropriations per Dollar of Gross Tuition

Fiscal Year	Gross Tuition	State Appropriations net of OhioLINK	Net State Appropriations per Dollar of Gross Tuition
1980	$ 13,833,157	$ 29,604,813	$ 2.14
1990	40,939,473	63,889,505	1.56
2001	74,956,371	86,874,854	1.16
2002	82,426,162	86,461,640	1.05
2003	94,242,118	85,513,853	0.91
2004	107,972,107	86,565,632	0.80
2005	121,717,222	84,724,080	0.70

This shifting of the financial burden has caused the University concerns, especially in recent years. In the last four years, there has been a forty percent reduction in the ratio of state appropriations to gross tuition. In gross dollars, the difference between state appropriations (net of OhioLINK) and gross tuition has gone from a positive $11.9 million in 2001 to a negative $37.0 million in 2005. That is a difference of $48.9 million in just four years. That difference reflects the magnitude of the additional burden placed on students and their families by the withdrawal of state support. Even with these reductions in state support, Wright State has continued to assess lower than average tuition and fees in recent years and as a result continues to hold its rank of fourth lowest (out of 13) of the four-year public institutions with respect to student tuition rates. It should be noted that two of the lower three universities receive special state funding that Wright State does not receive.

Below is a graphic illustration of revenues by source for the year ended June 30, 2005.



State appropriations were \$93.1 million in 2005, an increase of \$1.4 million from \$91.7 million in 2004. OhioLINK alone provided a \$3.2 million increase in state appropriations from 2004 to 2005. Without that increase, state appropriations actually decreased \$1.8 million. State appropriations were \$92.3 million in 2003. State funding is in general a function of student credit hour enrollment; the university's enrollment has been growing during the most recent decade. Even so, the level of appropriations has dropped in recent years. State funding per student has dropped much more.

Net student tuition and fees were \$99.5 million, \$87.3 million, and \$75.8 million in 2005, 2004, and 2003, respectively which provided an increase of approximately 14 percent from 2004 to 2005 and just over 15 percent from 2003 to 2004. These increases are a result of the university's need to raise tuition greater than it would desire due to the declining levels of state appropriations. The University increased tuition for most students by an average of 9.9 percent in 2005. Also contributing to the increases in tuition and fees are increases in enrollments in both years. FTE enrollments were 14,746, 14,552, and 13,892 in 2005, 2004, and 2003, respectively, an increase of 6.1 percent over the two year period.

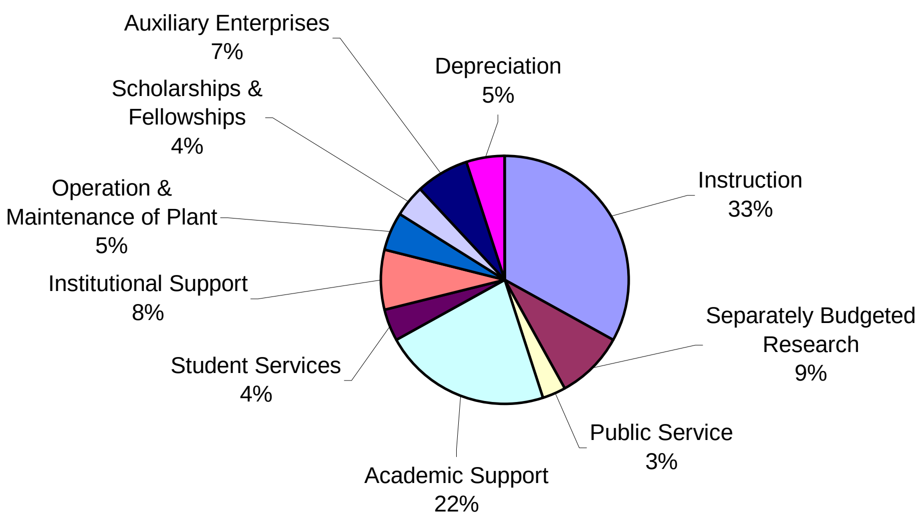
Grants and contracts increased from \$79.7 million in 2004 to \$87.9 million in 2005, an increase of \$8.2 million or 10.3 percent. 2003 was \$72.0 million. While OhioLINK was a significant portion of the 2005 increase (\$5.8 million), other grant and contract awards also continue to increase annually. This trend has been ongoing for well over a decade. OhioLINK was also the primary reason for the 2004 increase. Although the University receives state appropriations in support of this program, the majority of the revenue is received from other colleges and universities and from federal sponsors and is reported as grants and contracts.

Auxiliary revenues decreased \$.5 million from \$14.9 million in 2004 to \$14.4 million in 2005. A combination of factors contributed to the decrease, but primary drivers included a decrease in concert business at the university's Nutter Center and a reduction in parking fines realized by the Parking and Transportation auxiliary. Auxiliary revenues were \$13.2 million in 2003. The \$1.7 million increase in 2004 over 2003 was the result of an accounting change in the structure of the university's contract with its food service contractor.

Sales and services, which are primarily revenues generated from specific departmental sales activities to organizations external to the University, were $7.4 million, $6.8 million, and $7.1 million for the years ended June 30, 2005, 2004 and 2003, respectively. The 2005 increase was made up of increases in revenues from numerous activities such as conferences, departmental sales of supplies to students, clinical income from the School of Medicine, and other revenues of this nature.

Investment income was $5.0 million, $3.5 million, and $3.0 million in 2005, 2004, and 2003, respectively. The $1.5 million increase in 2005 is due primarily to two factors. University reserves have been growing each year, and as a result the University is reaping the benefits of having a greater amount of invested assets. Partially as a response to this, the University also modified its investment policy to allocate a greater level of investments to longer term investment instruments. These two factors have enabled the University to enjoy better returns. With a need to become more self sufficient due to a lowering financial commitment by the State, the University is beginning to rely more on investment income to supplement its revenue sources.

The following is a graphic illustration of expenses by function for the year ended June 30, 2005.



Overall operating expenses were $305.4 million in 2005 as compared to $284.2 million and $266.4 million in 2004 and 2003, respectively. The 2005 increase represents an increase of $21.2 million or 7.5 percent. As in 2004, employee compensation and benefits is the largest component of the increase, increasing $9.5 million from $174.2 million in 2004 to $183.7 million in 2005. This represents a 5.5 percent increase in 2005 from 2004. Routine compensation increases coupled with continuing double digit benefit cost increases caused the increase. Scholarship and fellowship awards increased $1.0 million in response to the increase in student tuition costs and the desire to have awards keep pace with these rising costs.

As previously discussed, OhioLINK expenditures increased significantly in 2005, due to the volume of participation and the increased number and amount of license agreements. The 2005 increase alone was $9.0 million. From 2002 to 2005 OhioLINK expenditures have almost doubled from $17.6 million to $34.2 million and now account for over 11 percent of total operating expenses. Operating expenses increased $17.8 million in 2004 over 2003, $14.3 million the result of salary and benefit increases.

After deducting restricted sponsored activity (externally funded gifts and awards, including OhioLINK) from total operating expenses in each of the last four fiscal years 2002 through 2005, spending per student FTE has only increased approximately 4.2 percent in three years. We believe that is a function of prudent fiscal management as well as the benefit of a growing enrollment over that same time period. Nonetheless, the University believes it has been able to further its mission by providing educational excellence while simultaneously controlling costs in an effort to keep tuition as affordable as possible for its students.

Statements of Cash Flows

The Statements of Cash Flows also provide information about the university's financial health by reporting the cash receipts and cash payments of the University during each respective year ended June 30. A summary of the Statements of Cash Flows is as follows:

	2005	2004	2003
	(All dollar amounts in thousands)		
Cash provided (used) by:			
Operating activities	$ (87,505)	$ (77,859)	$ (81,591)
Noncapital financing activities	97,913	96,089	97,076
Capital and related financing activities	20,751	(15,337)	(2,540)
Investing activities	(7,861)	(7,497)	(223)
Net increase in cash and cash equivalents	23,298	(4,604)	12,722
Cash and cash equivalents-beginning of year	42,276	46,880	34,158
Cash and cash equivalents-end of year	$ 65,574	$ 42,276	$ 46,880

Cash and cash equivalents increased $23.3 million in 2005 from 2004. This is the result of unspent bond proceeds remaining at June 30, 2005 from a December 2004 bond issuance. These proceeds are planned to be spent over the next two fiscal years. The effect of the bond issuance can be seen in the table above as capital and related financing activities increased by $36.1 million from 2004 to 2005. Cash flows from operating activities decreased $9.6 million as a result of the increases in operating expenses as described earlier offset somewhat by the increase in student tuition and fees. In addition, cash flows from the OhioLINK program decreased approximately $4.5 million due to the timing of the revenues and expenditures in both 2005 and 2004. The change in cash and cash equivalents in 2004 from 2003 is the result of more funds being invested in investments as opposed to cash in 2004 as compared to 2003. In addition, the decrease in capital and related financing activities is the result of a 2003 bond issuance that provided an additional $7.0 million of proceeds and an additional $3.0 million of State capital funding in 2003.

Capital Assets and Debt

Capital Assets

The University had approximately $228.6 million invested in capital assets, net of accumulated depreciation of $169.5 million at June 30, 2005. Capital assets were $227.3 million, net of accumulated depreciation of $158.3 million at June 30, 2004. Depreciation expense for the years ended June 30, 2005 and 2004 was $14.1 million and $14.0 million, respectively. A summary of net capital assets for the year ended June 30 is as follows:

	2005	2004	2003
	(All dollar amounts in thousands)		
Land, land improvements and infrastructure	$ 22,906	$ 20,081	$ 20,618
Buildings	162,503	167,146	166,496
Machinery and equipment	22,981	21,104	17,125
Library books and publications	18,673	18,926	19,188
Construction in progress	1,578		1,733
Total capital assets - net	$ 228,641	$ 227,257	$ 225,160

The University performed some routine, annual maintenance of its facilities during 2005 in the form of electrical infrastructure, upkeep of buildings, and maintenance of its roads and parking lots. The University also continued with the implementation of its ERP suite of administrative software and capitalized another $2.6 million in 2005 for a total of $6.6 million. The total project cost is expected to be $15 million. In addition, the University began preliminary planning and construction activity on several projects that will be performed over the next several fiscal years. This is reflected in the construction in progress. These projects will include the expansion and renovation of science labs, renovation of the Student Union, creation of space for a world-class center focused on research, development and commercialization of information technology, renovation of the Frederick A. White Center, and further construction of parking lots and road improvements. These projects will be financed through a number of sources including debt financings, private donations, and university funding. 2004 activity included capitalizing $4.0 million for the ERP software, completion of an electrical substation at $1.2 million, and completing a renovation project for student apartments at $1.0 million.

Debt

The University issued $31.4 million in general receipts bonds in December 2004 at a premium of $.9 million for a total issue of $32.3 million. The average coupon rate on these bonds is 4.42 percent and the effective interest rate is 4.03 percent. The bonds were issued to finance in whole or in part the renovation and expansion of science facilities and laboratories, renovation of the Student Union and Frederick A. White Center, construction of various parking and road improvements, and the purchase and installation of an administrative software system. The University received a bond rating for this issue from Moody's Investors Service of A2. New bonds were also issued in 2003 in the amount of $16.9 million, $9.1 million of which was used to refund two earlier bond issuances.

Outstanding debt was $46.2 million, $16.5 million, and $18.6 million at June 30, 2005, 2004, and 2003, respectively. The 2005 balance of $46.2 million includes $45.4 million of outstanding bonds ($31.8 million Series 2004 and $13.6 Series 2003) and equipment leases of $.8 million.

Economic Factors That Will Affect the Future

Management is proud that it continues to build a solid financial foundation upon which to continue its mission, but also remains concerned that a continuing erosion of state support is placing a growing burden on students and their families. While aggressive management and continuing enrollment growth have allowed us to control our per student expenditures, we now find that our enrollment growth is slowing and we need to make targeted investments to serve our larger student body more effectively. Management is pursuing new cost savings initiatives for fiscal year 2006, but it is also facing rising energy costs and the need to make additional investments in its strategic plan. In the absence of any restoration of state funding cuts, pressure on tuition will continue to grow. But Ohio's economy has not been strong, in part because it failed to make the investments in past years to prepare its people for global competition in a knowledge economy. Now, poor economic performance reflected in state tax collections makes those investments even more difficult in the future. Management is attempting to respond to this trend by growing university reserves to create a permanent stream of investment revenue that might partially offset declining state support. The University modified its investment policy during 2005 with this goal in mind.

The University also struggles with its decisions to raise tuition to the magnitude that has been necessary in recent years. With less future reliance on State funding becoming evident, providing a solid financial foundation and finding alternate sources of income will lessen the future magnitude of tuition increases. This is why management continues to be so pleased with the success of its fundraising campaign that is nearing its conclusion. This campaign will help support scholarships, faculty development programs, and facility improvements. In just this most recent fiscal year, contributions and pledges increased nearly $37 million ($28.5 million from one donor), which increased the total campaign by 66 percent. It will take these types of successes as well as careful, prudent management to overcome the financial challenges that public higher education faces in Ohio. We continue to work with the State in various forums to emphasize the importance of public funding for higher education as an essential investment in the state's future.

The University continues to be faced with the need to invest in its aging facilities. It is a constant challenge in the capital planning process to determine how various projects are going to be funded. More and more, the University is funding capital needs with operating funds and bond financings that must be retired with operating funds. In 2005, the University had a bond issuance for the second time in three years. While this was done in a thoughtful and prudent manner, the need to issue the same levels of debt probably would not have existed even a decade ago. State capital funding has declined even more rapidly than the state's support for operating expenditures.

Even with these continued challenges that exist, we believe that we have been progressing in a financially sound manner that will position us to continue offering the instructional and research programs that will meet the needs of our students and our community. Our track record has been positive, and we believe we have the plans in place to continue down this successful path that will lead to an even brighter future.

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Report of Independent Auditors

To The Board of Trustees
of Wright State University:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets and cash flows present fairly, in all material respects, the financial position of Wright State University (the "University"), a component unit of the State of Ohio, at June 30, 2005 and 2004, and its revenues and expenses and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 through 12 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 1, the University adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 40, *Deposit and investment Risk Disclosures,* an amendment of GASB Statement No.3, effective July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the University'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 for the year ended June 30, 2005. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

PricewaterhouseCoopers LLP

Dayton, Ohio
September 30, 2005

WRIGHT STATE UNIVERSITY
Statements of Net Assets
June 30, 2005 and 2004

	2005 University	2005 Foundation	2004 University	2004 Foundation
ASSETS				
Current assets:				
Cash and cash equivalents	$ 40,449,695	$ 2,246,678	$ 42,275,915	$ 1,478,940
Short-term investments	6,741,695		8,820,497	
Accounts receivable (net of allowance for doubtful accounts of $840,000 in 2005 and $780,000 in 2004 - Note 3)	21,930,741		19,179,701	
Gifts and pledges receivable (net of allowance for uncollectible pledges of $200 in 2005 and $9,500 in 2004)		4,036,296		4,808,163
Loans receivable (net of allowance for doubtful loans of $1,600,000 in 2005 and $1,582,000 in 2004)	3,125,141		3,016,789	
Inventories	784,777		768,646	
Prepaid expenses	7,431,664		10,967,607	
Deferred charges	4,032,236		4,111,595	
Total current assets	84,495,949	6,282,974	89,140,750	6,287,103
Noncurrent assets:				
Restricted cash and cash equivalents	25,124,439			
Restricted investments	929,228			
Gifts and pledges receivable (net of allowance for uncollectible pledges of $15,100 in 2005 and $11,000 in 2004)		8,318,604		6,854,337
Loans receivable (net of allowance for doubtful loans of $170,000 in 2005 and $163,000 in 2004)	16,816,569		16,161,851	
Other assets	5,960,572	290,751	1,029,227	215,884
Other long-term investments	70,317,642	81,783,150	57,735,280	47,375,851
Capital assets, net (Note 4)	228,640,829	650,000	227,256,452	650,000
Total noncurrent assets	347,789,279	91,042,505	302,182,810	55,096,072
Total assets	**$ 432,285,228**	**$ 97,325,479**	**$ 391,323,560**	**$ 61,383,175**
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable trade and other	$ 9,945,829	$ 25,992	$ 9,704,908	$ 97,311
Accounts payable to Wright State University		1,288,630		787,877
Accrued liabilities	10,592,741		9,821,284	
Deferred revenue (Note 1)	34,896,202		38,813,418	
Refunds and other liabilities	415,478	1,163,972	442,962	1,064,739
Current portion of long-term liabilities (Note 5)	9,076,137	1,066,662	7,178,121	1,162,150
Total current liabilities	64,926,387	3,545,256	65,960,693	3,112,077
Noncurrent liabilities:				
Long-term liabilities (Note 5)	51,113,683	253,238	22,406,000	247,950
Total noncurrent liabilities	51,113,683	253,238	22,406,000	247,950
Total liabilities	116,040,070	3,798,494	88,366,693	3,360,027
Net assets:				
Invested in capital assets, net of related debt	206,593,815	650,000	210,772,331	650,000
Restricted - nonexpendable:				
Instruction and departmental research		14,394,309		13,572,515
Separately budgeted research	357,337	339,229	357,337	84,228
Public service		161,899		161,749
Academic support		444,015		444,005
Student services		10,000		10,000
Scholarships and fellowships	1,003,500	8,925,165	1,003,500	8,582,206
Auxiliaries		59,521		58,766
Other	3,044		3,044	
Restricted - expendable:				
Instruction and departmental research	124,086	40,312,716	177,195	10,214,766
Separately budgeted research	1,739,012	2,734,648	1,807,629	4,167,908
Public service		627,797	1,385	930,709
Academic support		1,503,906		1,156,346
Student services		90,370		93,038
Institutional support		3,466,609		2,647,143
Plant operation and maintenance		3,199,567		40,411
Scholarships and fellowships	892,581	14,296,497	790,568	13,402,080
Loans	17,989,166		17,096,289	
Debt service	212,846		272,597	
Auxiliaries		754,112		752,057
Other		51,250	5,262	65,419
Unrestricted	87,329,771	1,505,375	70,669,730	989,802
Total net assets	316,245,158	93,526,985	302,956,867	58,023,148
Total liabilities and net assets	**$ 432,285,228**	**$ 97,325,479**	**$ 391,323,560**	**$ 61,383,175**

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	2005		2004	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of $22,180,000 in 2005 and $20,677,000 in 2004)	$ 99,537,222	$	$ 87,295,107	$
Federal grants and contracts	40,737,276		40,286,351	
State grants and contracts	7,077,822		6,126,816	
Local grants and contracts	393,370		577,123	
Nongovernmental grants and contracts	39,645,487		32,666,343	
Sales and services	7,429,022		6,828,099	
Auxiliary enterprises sales (net of scholarship allowances of $1,552,000 in 2005 and $1,409,000 in 2004)	14,444,110		14,871,000	
Gifts and contributions		36,384,024		12,710,489
Other operating revenues	1,745,670		1,784,869	
Total operating revenues	**211,009,979**	**36,384,024**	**190,435,708**	**12,710,489**
OPERATING EXPENSES				
Educational and general:				
Instruction and departmental research	101,791,470		96,809,086	
Separately budgeted research	27,075,511		24,287,690	
Public service	8,096,329		10,491,213	
Academic support	66,468,446		55,978,758	
Student services	13,442,514		12,312,121	
Institutional support	25,228,720	506,287	21,516,408	372,230
Operation and maintenance of plant	14,230,982		15,447,693	
Scholarships and fellowships	12,343,062		11,404,292	
Total educational and general	268,677,034	506,287	248,247,261	372,230
Auxiliary enterprises	22,631,270		22,024,035	
Depreciation	14,125,353		13,955,400	
Total operating expenses	**305,433,657**	**506,287**	**284,226,696**	**372,230**
Operating (loss)	(94,423,678)	35,877,737	(93,790,988)	12,338,259
NONOPERATING REVENUES (EXPENSES):				
State appropriations	93,098,926		91,725,182	
Gifts	5,223,690		4,969,631	
Investment income (net of investment expenses of $213,000 in 2005 and $210,000 in 2004 for WSU and $94,152 in 2005 and $71,874 in 2004 for Foundation)	4,966,601	4,984,463	3,564,891	5,830,753
Interest on capital asset-related debt	(1,057,776)		(656,888)	
Payments to Wright State University		(5,358,363)		(4,750,719)
Other nonoperating revenues (expenses)	1,686		(12,704)	
Net nonoperating revenues before capital appropriations and capital grants	102,233,127	(373,900)	99,590,112	1,080,034
Capital appropriations from the State of Ohio	4,677,609		3,446,541	
Capital grants	801,233		1,029,216	
Total nonoperating revenues (net)	**107,711,969**	**(373,900)**	**104,065,869**	**1,080,034**
Increase in net assets	**13,288,291**	**35,503,837**	**10,274,881**	**13,418,293**
NET ASSETS				
Net assets - beginning of year	302,956,867	58,023,148	292,681,986	44,604,855
Net assets - end of year	**$ 316,245,158**	**$ 93,526,985**	**$ 302,956,867**	**$ 58,023,148**

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 99,783,102	$ 87,711,566
Federal, state, local, and nongovernmental grants and contracts	83,727,792	81,767,286
Sales and services of educational and other departmental activities	7,445,420	7,703,613
Payments to employees	(145,300,030)	(137,743,096)
Payments for benefits	(37,623,731)	(35,649,718)
Payments to suppliers	(96,463,877)	(83,211,201)
Payments for scholarships and fellowships	(12,760,886)	(12,244,783)
Student loans issued	(4,786,168)	(4,911,789)
Student loans collected	4,023,097	3,494,366
Student loan interest and fees collected	327,283	319,246
Auxiliary enterprise sales	14,122,645	14,905,222
Net cash (used) by operating activities	**(87,505,353)**	**(77,859,288)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	93,098,926	91,725,182
Gifts	4,814,419	4,363,638
Net cash provided by noncapital financing activities	**97,913,345**	**96,088,820**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations from the State of Ohio	3,051,097	3,446,541
Capital grants received	801,233	1,029,216
Purchases of capital assets	(11,819,887)	(17,325,153)
Sales of capital assets	70,320	255,819
Proceeds from capital debt	32,299,216	
Principal paid on capital debt and leases	(2,593,517)	(2,086,202)
Interest paid on capital debt and leases	(1,057,776)	(656,888)
Net cash provided/(used) in capital and related financing activities	**20,750,686**	**(15,336,667)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	78,356,127	90,928,910
Interest on investments	3,555,220	1,854,979
Purchase of investments	(89,771,806)	(100,281,235)
Net cash (used) in investing activities	**(7,860,459)**	**(7,497,346)**
Net (Decrease)/Increase in Cash and Cash Equivalents	**23,298,219**	**(4,604,481)**
Cash and Cash Equivalents - Beginning of Year	42,275,915	46,880,396
Cash and Cash Equivalents - End of Year	**$ 65,574,134**	**$ 42,275,915**

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:	2005	2004
Operating loss	$ (94,423,678)	$ (93,790,988)
Depreciation	14,125,353	13,955,400
Change to allowance for doubtful accounts	60,000	150,000
Change to allowance for doubtful loans	25,000	48,000
Changes in assets and liabilities:		
Accounts receivable	(1,078,866)	(3,167,909)
Inventory	(16,131)	(20,332)
Prepaid expenses	2,717,415	(339,618)
Deferred charges	79,359	(432,906)
Other assets	(4,931,345)	1,764,210
Accounts payable	(1,001,147)	(1,264,954)
Accrued liabilities	771,457	(371,058)
Deferred revenue	(3,917,216)	6,454,756
Compensated absences	900,000	700,000
Refunds and other liabilities	(27,484)	(78,468)
Loans to students and employees	(788,070)	(1,465,421)
Net cash (used) by operating activities	**$ (87,505,353)**	**$ (77,859,288)**

See Accompanying Notes to Financial Statements

(1) Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Wright State University (University) is a state-assisted institution of higher education created in 1967. The University has an enrollment of more than 17,000 undergraduate, graduate, and professional students on its two campuses. The financial statements include the university's six colleges, three schools, and other individual departments. The university's Board of Trustees approves policies and procedures by which the University is governed. The University is a political subdivision of the State of Ohio and accordingly, its financial statements are included, as a discrete entity, in the State of Ohio's Comprehensive Annual Financial Report in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, and amended by GASB Statement No. 39. GASB Statement No. 39 was issued in May 2002, effective for the University for the year ended June 30, 2004. As an amendment to Statement No. 14, Statement No. 39 provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as a component unit of the University based upon the nature and significance of their relationship to the University. Although the Wright State University Foundation (Foundation) is a legally separate not-for-profit, tax-exempt entity, it has been determined that it does meet the criteria for discrete presentation within the university's financial statements. The Foundation is the primary fund-raising organization for the University and contributions to the Foundation are primarily restricted to the activities of the University. These contributions are relied upon for the on-going operations of the University. The Financial Accounting Standards Board is the accepted standards setting body for establishing accounting and reporting principles for not-for-profit entities. Only selected footnote disclosures are included regarding the Foundation. No other affiliated organization, such as the Alumni Association, meets the requirements for inclusion in the university's financial statements. Complete financial statements for the Foundation can be obtained by sending a request to the Wright State University Foundation, 108J Allyn Hall, 3640 Colonel Glenn Highway, Dayton, OH 45435.

The financial statements have been prepared in accordance with generally accepted accounting principles for colleges and universities within the United States of America, as prescribed by GASB.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis. The University reports as a business-type activity, as defined by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis - for Public Colleges and Universities*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. All internal (between funds) transactions have been eliminated.

Recent Pronouncements

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk and was adopted for the current year ended June 30, 2005.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. The University will be evaluating the impact that the adoption of this statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents include amounts held in the State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements held in sweep accounts with various institutions in demand accounts. In addition, each of the external investment managers maintains a balance in a money market fund. These balances are included as cash equivalents due to their high liquidity and short-term nature. Other investments purchased with three months or less to maturity are also considered cash equivalents.

Investments

Investments are reported at fair value, as established by the major securities markets. Money market investments (U.S. treasury and agency obligations) that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost and approximate fair value. If contributed, investments are valued at market value at the date of donation. Investment income is recognized on an accrual basis. Purchases and sales of investments are accounted for on the trade date basis. Investment trade settlements receivable and payable represent investment transactions occurring on or before June 30, 2005, which settle after such date. Realized and unrealized gains and losses are reported as investment income or loss.

All securities purchased by external investment managers in the university's "liquidity" and "diversified" investment pools, with the exception of money market purchases and redemptions, are considered investments regardless of maturity date, as these investment pools are designed more for capital appreciation and have average durations of at least two years. Investments with maturities of less than one year are considered short-term or current.

Distributions of investment earnings are made from the university's endowment fund to the operating units that benefit from the endowment funds. The endowment spending policy calls for the distribution of 4 percent of the previous twelve quarter moving average market value of the endowment fund. In addition, as of June 30, 2005 and 2004 there was approximately $2,758,000 and $2,720,000, respectively, of net appreciation on investments of donor-restricted endowments that are available for expenditure. They are reported as "restricted-expendable" net assets in the Statements of Net Assets.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets include land, land improvements, infrastructure, buildings, machinery, equipment, library books, publications and construction in progress. They are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Building renovations that materially increase the value or extend the useful life of the structure are also capitalized. Normal repairs and maintenance are expensed in the year in which the expenses are incurred. The university's threshold for capitalizing fixed assets is $3,000 and an estimated useful life of 5 or more years. Using the straight-line method, capital assets are depreciated over their estimated useful lives; generally, 40 years for buildings, 30 years for land improvements and infrastructure, 15 years for library books and publications, and 5 to 10 years for machinery and equipment. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are not encumbered or sold for financial gain. Consequently, such collections are not recognized in the financial statements.

Deferred Revenue

Deferred revenue consists primarily of the amounts received in advance from grant and contract sponsors that have not yet been earned under the terms of the agreement and amounts received in advance for tuition and fees not yet earned. These deferrals were $22.6 million and $10.8 million, respectively, for the year ended June 30, 2005 and $27.3 million and $9.9 million, respectively, for the year ended June 30, 2004.

Net Assets

Net assets are classified as follows: Invested in capital assets, net of related debt represents the value of capital assets less accumulated depreciation and the debt related to acquisition, or construction of the asset. Restricted - Nonexpendable is comprised primarily of gifts which are subject to external restrictions requiring that the principal be invested in perpetuity and that only the cumulative earnings be utilized. Restricted - Expendable represents resources that have been received and must be used for specific purposes. Unrestricted represents net assets that are not subject to external restrictions. Management or the Board of Trustees designates most of the unrestricted net assets for specific purposes in research, academic, capital acquisition, or other initiatives.

Revenues and Expenses

Revenues and expenses are classified as operating or nonoperating. Operating revenues are resources primarily from exchange transaction activities. These include payments received for services, such as tuition and fees, and most grants and contracts. Nonoperating revenues are from non-programmatic sources and have the characteristics of nonexchange transactions. They include state appropriations, gifts, and investment income. Nearly all of the university's expenses are a result of exchange transactions, and therefore classified as operating expenses. The major nonoperating expenses are net losses on the disposition of capital assets and interest expense on capital assets-related debt.

Scholarship Allowances

Scholarship allowances represent aid awarded to the student in the form of reduced tuition and are computed and reported in the financial statements under the alternate method as prescribed by the National Association of College and University Business Officers (NACUBO). Financial aid in the form of a cash payment to the student is reported as scholarship and fellowship expense in the financial statements. Third party loans such as Stafford loans and certain aid awarded to the students by third parties are credited to the student's account as if the student made the payment.

Income Taxes

The University is exempt from federal income taxes under Section 115 of the Internal Revenue Code. However, certain revenues are considered unrelated business income and are taxable under Internal Revenue Code Sections 511 through 513.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Previous Year's Financial Information

Certain reclassifications have been made to the 2004 comparative information to conform to the 2005 presentation.

(2) Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the university's deposits may not be recovered. Under state law, the university's deposits must be secured by federal deposit insurance and collateralized for amounts in excess of FDIC coverage. Collateral may be pledged or pooled. Pooled collateral may be held on the financial institution's premises or held by its trust department or agent on its behalf. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal one hundred five percent of the total amount of public deposits to be secured by the pooled securities. These securities may be held in the name of the University or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. The University does not have a deposit policy for custodial credit risk.

As of June 30, 2005 and 2004, the university's bank balances are $71,564,465 and $41,356,761, respectively. Of these balances, $70,113,383 and $37,973,729, respectively, are uninsured with collateral held by pledging banks not in the university's name.

At June 30, the carrying amount of deposits (book balances) is as follows:

		2005		2004
Petty cash	$	70,422	$	74,602
Demand deposits		63,301,420		33,951,582
Certificate of deposit		2,822,753		2,691,704
Money market funds		1,765,667		2,914,957
Total	$	67,960,262	$	39,632,845

The difference in the carrying amount and bank balances is caused by items in-transit (primarily outstanding checks) and by cash on hand.

Investments

The university's investment policy permits investments in publicly traded securities only. In addition, an amount equal to at least twenty five percent of the university's investment portfolio must at all times be invested in securities of the United States government or one of its agencies or instrumentalities, the treasurer of the State of Ohio's pooled investment program, obligations of the State of Ohio, or any political subdivision of the State of Ohio, certificates of deposit of any national bank located in the State of Ohio, written repurchase agreements with any eligible Ohio financial institution that is a member of the federal reserve system or federal home loan bank, money market funds or bankers acceptances maturing in two hundred seventy days or less which are eligible for purchase by the federal reserve system.

The fair value of investments at June 30 is as follows:

		Fair Value		
Description		2005		2004
U.S. Treasury securities	$	12,924,407	$	13,358,340
U.S. Agency securities		8,199,628		13,239,673
Equity mutual funds		41,048,884		9,595,169
Corporate bonds and notes		9,432,441		14,888,969
Bond mutual funds		2,248,744		1,753,721
State Treasury Asset Reserve of Ohio		1,365,853		5,334,775
Common and preferred stock		379,280		11,025,000
Other		3,200		3,200
Total	$	75,602,437	$	69,198,847

Interest Rate Risk The university's investment policy minimizes the risk of the loss of value due to changing interest rates, through the use of target durations for each of the university's investment pools. The Cash Pool is maintained to meet the daily obligations of the University and consists of highly liquid instruments with little to no risk of loss of principal. The maximum weighted average maturity for the Cash Pool is less than one year. The Liquidity Pool provides a source of funds in the event the Cash Pool is insufficient to meet the university's cash needs and maintains a weighted average life of less than five years. The Diversified Investment Pool provides the

University an opportunity to earn a higher rate of return through investments with longer durations. Equity managers are limited to a beta (volatility) of no more than 1.2 – 1.4 times the relevant benchmark. Duration for fixed income managed accounts must be within twenty percent of that of the Lehman Brothers Aggregate Bond Index.

The maturity of university investments at June 30 is as follows:

	2005 Investment Maturites (in years)				
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	$ 12,924,407	$ 2,097,200	$ 8,569,497	$ 1,396,310	$ 861,400
U.S. Agency securities	8,199,628	924,430	3,010,613		4,264,585
Corporate bonds and notes	9,432,441	897,318	4,707,129	1,839,001	1,988,993
Bond mutual funds	2,248,744		2,248,744		
Total	$ 32,805,220	$ 3,918,948	$ 18,535,983	$ 3,235,311	$ 7,114,978

	2004 Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	$ 13,358,340	$ 3,683,466	$ 7,833,754	$ 348,629	$ 1,492,491
U.S. Agency securities	13,239,673	1,207,487	6,047,841	133,244	5,851,101
Corporate bonds and notes	14,888,969	1,555,010	8,766,330	2,449,483	2,118,146
Bond mutual funds	1,753,721		1,753,721		
Total	$ 43,240,703	$ 6,445,963	$ 24,401,646	$ 2,931,356	$ 9,461,738

The University invests in mortgage pass-through securities issued by FNMA, GNMA and FHLMC which are included above in the amounts listed as U.S. Agency Securities. Prepayment options embedded in these securities cause them to be highly sensitive to interest rate changes. Generally when interest rates fall, more mortgages are prepaid. This eliminates the interest income that would have been received under the original amortization schedule. As of June 30, 2005 and 2004, the total value of mortgage pass-through securities is $4,234,713 and $5,792,055, respectively.

Credit Risk Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation. The university's investment policy limits exposure to credit risk by limiting purchases of fixed income securities to no lower than AA for the Cash Pool accounts and no lower than BBB for the Liquidity Pool accounts. At least fifty percent of the Cash Pool must be invested in U.S. Treasuries or Agencies. In addition, maximum exposure to high yield bonds cannot exceed fifteen percent of a Diversified Investment Pool Fixed Income account. All Commercial Paper must have a minimum rating of A1/B1.

The university's credit risk at June 30 is as follows:

2005

Credit Rating	Total	U.S. Treasury Securities	U.S. Agency Securities	Corporate Bonds and Notes	Bond Mutual Funds	State Treasury Asset Reserve (STAROhio)
AAA/Aaa	$ 25,077,635	$ 12,924,407	$ 8,199,628	$ 2,587,747	$	$ 1,365,853
AA/Aaa	3,113,496			1,114,888	1,998,608	
A	3,816,228			3,816,228		
BBB/Baa	1,401,249			1,401,249		
BB/Ba	600,450			350,314	250,136	
B	162,015			162,015		
Total	$ 34,171,073	$ 12,924,407	$ 8,199,628	$ 9,432,441	$ 2,248,744	$ 1,365,853

2004

Credit Rating	Total	U.S. Treasury Securities	U.S. Agency Securities	Corporate Bonds and Notes	Bond Mutual Funds	State Treasury Asset Reserve (STAROhio)
AAA/Aaa	$ 34,949,678	$ 13,358,340	$ 13,239,673	$ 3,016,890	$	$ 5,334,775
AA/Aaa	1,614,648			1,614,648		
A	5,735,569			5,735,569		
BBB/Baa	4,104,632			4,104,632		
BB/Ba	2,170,951			417,230	1,753,721	
Total	$ 48,575,478	$ 13,358,340	$ 13,239,673	$ 14,888,969	$ 1,753,721	$ 5,334,775

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. At June 30, 2005 and 2004, $14,706,261 and $23,226,028, respectively, is held by the investment's counterparty, not in the name of the University, but internally designated as held for the University.

The university's investment policy minimizes custodial credit risk by limiting the amount invested in any bank certificate of deposit unless the investments are fully collateralized by U.S. Treasury or Agency securities. In addition, bank certificates of deposit and bankers' acceptances must be issued by members of the Federal Deposit Insurance Corporation.

Concentration of Credit Risk Concentration of credit risk is the risk associated with a lack of diversification. It is the risk of loss attributed to the magnitude of the university's investment in a single issuer. Investment managers are required by the investment policy to limit exposure for any one single issue to no more than five percent of the portfolio, at cost. This limit does not apply to investments in U.S. Government Securities. Equity and fixed income managers are required to limit exposure to any one economic sector to forty percent of the portfolio. Cash Pool managers must limit commercial paper in any one issuer to no more than five percent of the manager's portfolio.

As of June 30, 2005 and 2004, the university's portfolio includes one issuer that exceeds five percent of the university's total investments. The University holds $4,955,094 in various Federal National Mortgage Association (FNMA) issues which represent 6.55 percent of the university's total investments at June 30, 2005. Comparatively at June 30, 2004, the University holds $7,491,650 various FNMA issues which represent 10.83 percent of total investments.

Foreign Currency Risk Foreign currency risk relates to the possible adverse effects that changes in exchange rates can have on the fair value of investments. According to the university's investment policy, international managers are expected to maintain an appropriate diversification with respect to currency and country exposure. All other managers are not permitted to invest in non-dollar denominated securities.

At June 30, 2005 and 2004, the University holds investments in foreign mutual funds of $8,980,793 and $4,898,676 respectfully. In addition, foreign currency exposure at June 30 includes the following:

		Fair Value		
Investment	Currency	2005	2004	Rating
Brazil Government Bond	Brazil Reais	$ 162,015	$	B
Canada Government Bond	Canada Dollar	65,142	76,171	AAA
Columbia Government Bond	Columbia Pesos	18,240		BB
Finland Government Bond	Finland Markkaa		15,058	AAA
France Corporate Bond	France Francs		17,382	Baa
Japan Government Bond	Japan Yen	289,721		A
Mexico Government Bond	Mexico Pesos		74,975	BBB
Norway Government Bond	Norway Kroner	65,534		AAA
Panama Government Bond	Panama Balboa	82,580		BB
Total		$ 683,232	$ 183,586	

The university's investment policy dictates no more than fifteen percent of the diversified investment pool fixed income account shall be invested in non-dollar denominated bonds. The above mentioned bonds represent less than five percent of the diversified investment pool as of June 30, 2005 and 2004.

Series 2004 Bond Proceeds In December 2004, the University issued $31,335,000 General Receipt Bonds to fund various capital projects. As of June 30, 2005, $26,052,395 of the proceeds remains unspent. Of this amount, $25,124,439 is considered restricted cash and is included in the demand deposit balance of $63,301,420. On July 1, 2005, the University finalized a Bond Market Association Master Repurchase Agreement with Citigroup Global Markets, Inc. in the amount of $25,124,439. The Bank of New York acts as custodian for this agreement. As provided in the bond indenture, bond proceeds are invested in domestic or foreign banks with a rating of at least A- by S&P and A3 by Moody's and must be collateralized with direct obligations of the United States or other instrumentalities fully guaranteed by the United States. The value of the collateral must be 104 percent; or if the securities used as collateral are FNMA or FHLMC, the value of the collateral must equal 105 percent of the assets.

The remaining bond proceeds of $927,956 are held in a bond trust account with JPMorganChase in an institutional money market trust. These funds, in addition to small balances held in other JPMorganChase trust accounts for the payment of Series 2003 and 2004 bond interest payments, equal $929,228 and are classified as restricted investments at June 30, 2005. This amount is included in the money market funds total of $1,765,667.

Investment Income The composition of investment income is as follows:

	Year Ended June 30	
	2005	2004
Net interest and dividend income	$ 3,062,644	$ 2,322,090
Realized gains/(losses) on sales	512,527	(351,519)
Unrealized gains in fair value	1,391,430	1,594,320
Total	$ 4,966,601	$ 3,564,891

(3) Accounts Receivable

The composition of accounts receivable at June 30 is as follows:

	2005	2004
Sponsor receivables	$ 9,903,742	$ 10,609,886
Student accounts	7,805,023	6,996,295
Wright State University Foundation	1,288,630	787,877
Investment trade receivables	187,142	123,517
Interest receivable	250,614	514,460
State appropriations	2,377,090	
Other, primarily departmental sales and services	958,500	927,666
Total	22,770,741	19,959,701
Less: Allowance for doubtful accounts	840,000	780,000
Net accounts receivable	$ 21,930,741	$ 19,179,701

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 is summarized as follows:

	Balance 07/01/2004	Additions	Retirements	Balance 06/30/2005
Land	$ 3,049,830	$	$	$ 3,049,830
Land improvements and infrastructure	23,827,085	3,598,268		27,425,353
Buildings	254,122,592	1,745,851		255,868,443
Machinery and equipment	55,478,755	6,627,451	(2,475,563)	59,630,643
Library books and publications	49,092,113	2,028,491	(533,702)	50,586,902
Construction in progress		1,578,304		1,578,304
Total	$ 385,570,375	$ 15,578,365	$ (3,009,265)	$ 398,139,475
Less accumulated depreciation:				
Land improvements and infrastructure	6,795,974	773,886		7,569,860
Buildings	86,976,845	6,388,461		93,365,306
Machinery and equipment	34,375,056	4,681,697	(2,406,928)	36,649,825
Library books and publications	30,166,048	2,281,309	(533,702)	31,913,655
Total accumulated depreciation	158,313,923	14,125,353	(2,940,630)	169,498,646
Capital assets, net	$ 227,256,452	$ 1,453,012	$ (68,635)	$ 228,640,829

(5) Long-Term Liabilities

Long-term liabilities consist of bonds payable, equipment lease purchase obligations, and compensated absences. Activity for long-term liabilities for the year ended June 30, 2005 is summarized as follows:

	Beginning Balance 7/1/2004	Additions	Principal Repayments/ Reductions	Ending Balance 6/30/2005	Current Portion
Bonds and equipment lease purchase obligations:					
General obligation bonds	$ 15,329,286	$ 32,299,216	$ 2,222,569	$ 45,405,933	$ 3,439,648
Equipment leases	1,154,835		370,948	783,887	236,489
Total bonds and equipment leases	$ 16,484,121	$ 32,299,216	$ 2,593,517	$ 46,189,820	$ 3,676,137
Other liabilities:					
Compensated absences	13,100,000	6,629,350	5,729,350	14,000,000	5,400,000
Total other liabilities	13,100,000	6,629,350	5,729,350	14,000,000	5,400,000
Total long-term liabilities	$ 29,584,121	$ 38,928,566	$ 8,322,867	$ 60,189,820	$ 9,076,137

Bonds payable on June 30, 2005 consist of Series 2003 and 2004 General Receipts Serial and Term bonds. The maturity dates, interest rates, and the outstanding principal balances of capital activities at June 30, 2005 are as follows:

Description	Maturity Dates	Interest Rates	Outstanding Principal	Unamortized Premium	Total
Bonds payable:					
Series 2003	2005-2023	3.00% - 5.00%	$ 13,130,000	$ 492,113	$ 13,622,113
Series 2004	2005-2029	2.50% - 5.00%	30,835,000	948,820	31,783,820
Total bonds payable			43,965,000	1,440,933	45,405,933
Equipment lease purchase obligations	2005-2009	2.50% - 4.55%	783,887		783,887
		Total	$ 44,748,887	$ 1,440,933	$ 46,189,820

The scheduled maturities of capital activities for the next five years and for the subsequent four year periods are as follows:

Year Ended June 30	Principal	Interest	Total
2006	$ 3,561,489	$ 1,798,266	$ 5,359,755
2007	3,656,532	1,679,956	5,336,488
2008	3,766,359	1,553,142	5,319,501
2009	3,714,507	1,437,612	5,152,119
2010	3,710,000	1,309,638	5,019,638
2011-2015	11,995,000	4,715,712	16,710,712
2016-2020	6,990,000	2,752,987	9,742,987
2021-2025	4,210,000	1,319,125	5,529,125
2026-2029	3,145,000	361,575	3,506,575
Total	$ 44,748,887	$ 16,928,013	$ 61,676,900

All general receipts of the University, except for state appropriations, are pledged for payment of the 2003 and 2004 bonds.

Interest expense incurred on indebtedness for the years ended June 30, 2005 and 2004 was $1,057,776 and $656,888 respectively. In 2005, interest expense on construction-related debt of $517,646, net of $351,323 interest earned on invested funds, was capitalized to the related capital projects. In 2004, interest expense on construction-related debt was not incurred. Therefore, interest was not capitalized that year.

The series 2004 General Receipts Bonds were issued in December 2004 in the amount of $31,335,000. The proceeds were used to pay associated bond issuance costs and to fund the construction for the purchase and installation of an administrative software system, renovation and expansion of certain science facilities and laboratories, renovation of the Student Union and the Frederick A. White Center and constructing various parking and road improvements.

(6) Retirement Plans

University faculty participate in either the State Teachers Retirement System of Ohio (STRS) or an alternative retirement plan (ARP). Substantially all other employees participate in either the Ohio Public Employees Retirement System (OPERS) or the ARP. Both STRS and OPERS are statewide cost-sharing multiple employer plans. Both plans provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits for both STRS and OPERS is provided by state statute per the Ohio Revised Code.

Both STRS and OPERS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to STRS at 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090 or making a written request to OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

Plan participants are required to contribute 10 percent and 8.5 percent and the University 14.0 percent and 13.31 percent of the employees' covered compensation for STRS and OPERS, respectively. The Ohio Revised Code provides statutory authority for both employee and employer contributions. The university's contributions to STRS were $7,439,443, $7,488,699, and $6,966,850, and to OPERS were $6,609,430, $6,360,369, and $6,023,531 for the years ended June 30, 2005, 2004, and 2003 respectively, equal to the required contributions for each year.

Certain full-time university faculty and unclassified staff have the option to choose the ARP in place of STRS or OPERS. The ARP is a defined contribution plan which provides employees with the opportunity to establish individual retirement accounts with a defined group of investment options, with each participant having control of the assets and investment options associated with those assets. The administrators of the plan are the providers of the plan investment options. Authority to establish and amend benefits and contribution requirements for the ARP is provided by state statute per the Ohio Revised Code.

Under the provisions of ARP, the required contribution rates for plan participants are 10 percent and 8.5 percent of employees' covered compensation for employees who would otherwise participate in STRS and OPERS, respectively. The University contributes 13.31 percent of a participating unclassified staff member's compensation to the participant's account. The university's contributions to a participating faculty member's account and to STRS is 10.5 percent and 3.5 percent of a participant's compensation, respectively. Plan participants' contributions were $2,710,308, $2,430,747, and $2,053,685, and the university's contributions to the plan providers amounted to $3,356,861, $3,065,869, and $2,745,302, respectively, for the years ended June 30, 2005, 2004, and 2003. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were $656,623, $573,143, and $434,553, respectively, for the years ended June 30, 2005, 2004, and 2003.

(7) Other Postemployment Benefits (OPEB)

STRS provides access to healthcare coverage to retirees and their dependents who are not participants of the ARP. OPERS provides postretirement health care coverage to age and service retirants (and dependents) with 10 or more years of qualifying Ohio service credit who also are not participants of the ARP. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS. A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate was 1 percent of the total 14.00 percent (see note 6), while the OPERS rate was 4 percent of the total 13.31 percent (see note 6) effective July 1, 2003.

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS and OPERS. Postretirement health care under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to $3.1 billion at June 30, 2004. The number of benefit recipients eligible for OPEB was 111,853 for STRS at June 30, 2004. The amount contributed by the University to STRS to fund these benefits was $531,389 for the year ended June 30, 2005.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for OPEB at December 31, 2003 is $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively. The number of OPERS active contributing participants was 369,885 for the year ended December 31, 2004. For the year ended June 30, 2005 the University contributed $1,986,134 to OPERS for OPEB funding.

(8) Related Organization

The University is the sole beneficiary of the Wright State University Foundation, Inc., a separate, not-for-profit entity governed by a separate Board of Trustees, organized for the purpose of promoting educational and research activities. Assets of the Foundation totaled approximately $97,000,000 at June 30, 2005. Such assets relate principally to donor restricted funds and are discretely presented in the accompanying financial statements. Amounts transferred to the University from the Foundation are recorded as nonoperating gifts in the accompanying financial statements.

(9) State Support

The University is a state-assisted institution of higher education which receives a student enrollment-based subsidy from the State of Ohio. This subsidy is determined annually, based upon a formula devised by the Ohio Board of Regents, Ohio's higher education advising and coordinating board.

In addition to student enrollment-based subsidies, the State of Ohio provides funding for construction of major plant facilities. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn results in construction and subsequent transfer of the facility to the University by the Ohio Board of Regents. Costs incurred during construction are included in construction in progress and recognized as capital appropriations. Upon completion of a facility, the Ohio Board of Regents turns control over to the University.

University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.

As a result of the above described financial assistance provided by the State to the University, outstanding debt issued by OPFC is not included in the university's financial statements.

(10) Commitments and Contingencies

At June 30, 2005, the University is committed under contractual obligations for:

Capital expenditures	$	5,784,148
Non-capital goods and services		5,519,650
Total contractual commitments	$	11,303,798

These commitments are being funded from the following sources:

State appropriations requested and approved	$	1,716,964
University funds		9,586,834
Total sources	$	11,303,798

The University is presently involved as a defendant or codefendant in various matters of litigation. The university's administration believes that the ultimate disposition of these matters would not have a material adverse effect upon the financial condition of the University.

Selected Notes of the Wright State University Foundation (a component unit)

(11) Summary of Significant Accounting Policies

In accord with generally accepted accounting principles as applied to not-for-profit organizations, the financial statements of the Foundation have been prepared on the accrual basis of accounting. The Financial Accounting Standards Board (FASB) is the accepted standards setting body for establishing accounting and reporting principles for not-for-profit entities. The following is a summary of the Foundation's significant accounting and reporting policies presented to assist the reader in interpreting the financial statements and other data in this report.

Cash and Cash Equivalents
The Foundation considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Pledges Receivable
Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Funds from pledges to be collected in future years are recorded at net present value. All pledges are presented net of an allowance for doubtful collections.

Investments in Securities
Investments are stated in fair or appraised value and realized and unrealized gains and losses are reflected in the statement of activities. Market value is determined by market quotations. Donated investments are recorded at fair value at the time received.

Investment Earnings
Interest and dividends from endowment investments are credited to temporarily restricted funds and spent in compliance with donor stipulations and the Foundation's spending policy. Interest and dividends from non-endowment investments are credited to the unrestricted fund for expenditure at the discretion of the Foundation's board of trustees. Realized gains or losses are determined based on the average cost method.

(12) Pledges Receivable

Pledges receivable at June 30, 2005 and 2004, by fund type, are as follows:

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 36,870	$ 2,620,881	$ 1,378,745	$ 4,036,496
One to five years	24,100	5,199,228	2,028,080	7,251,408
Gross pledges receivable	60,970	7,820,109	3,406,825	11,287,904
Present value discount	(2,370)	(352,709)	(110,425)	(465,504)
Allowance for uncollectible pledges	(200)	(14,800)	(300)	(15,300)
Pledges receivable (net)	$ 58,400	$ 7,452,600	$ 3,296,100	$ 10,807,100

	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Less than one year	$ 42,015	$ 3,311,579	$ 1,464,069	$ 4,817,663
One to five years	34,600	3,389,971	2,355,950	5,780,521
Gross pledges receivable	76,615	6,701,550	3,820,019	10,598,184
Present value discount	(2,815)	(256,450)	(122,419)	(381,684)
Allowance for uncollectible pledges	(500)	(19,000)	(1,000)	(20,500)
Pledges receivable (net)	$ 73,300	$ 6,426,100	$ 3,696,600	$ 10,196,000

The fair value of pledges receivable was determined using discount rates applicable to the year in which the pledge was established. Rates ranged from 2.46 percent to 6.18 percent.

(13) Investments in Securities

The cost and fair value of the Foundation's investments, at June 30, 2005 and 2004, are as follows:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Common stock	$	$	$ 9,725,075	$ 10,447,411
Mutual funds:				
Equity	51,549,101	52,034,369	12,031,062	15,980,599
Fixed income	29,033,787	28,990,583	15,316,087	15,980,480
Exchange traded funds			3,649,642	4,256,395
Total	$ 80,582,888	$ 81,024,952	$ 40,721,866	$ 46,664,885

Net realized gains on sales of investments were $2,483,723 and $583,476 for the years ended June 30, 2005 and 2004, respectively. Calculation of net realized gains on sales of investments is based on original cost.