

WRIGHT STATE *UNIVERSITY*

Annual Report
For Year Ended
June 30, 2009

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WRIGHT STATE UNIVERSITY

Annual Report
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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, 2009 with selected comparative information for the years ended June 30, 2008 and 2007. 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

- Wright State is continuing to enhance its national reputation. *The Princeton Review* again named Wright State University among the "Best in the Midwest" in its *2009 Best Colleges: Region by Region* issue. Wright State was among 630 of the best colleges in four regions of the United States. Criteria considered for this designation include academics, quality of life, and extracurricular activities. In addition, Wright State is among the 262 Best National Universities listed in the *America's Best Colleges 2009* rankings by U.S. News and World Reports.
- For the second year in a row the University did not raise undergraduate tuition. Graduate tuition as well as the School of Professional Psychology and the Boonshoft School of Medicine (BSOM) all had tuition increases of 4%. These modest tuition increases were the result of a continued financial commitment to public higher education by the State of Ohio in this second year of a biennial state budget. That commitment resulted in a significant increase in state funding in 2008 and 2009 and in a state mandate to pass much of the benefit of this increase to students in the form of an undergraduate tuition freeze for the biennium. Not increasing undergraduate tuition over the last two years has allowed Ohio's public universities to come back towards the middle of the pack nationally with respect to their tuition rates. The College Board reports that undergraduate tuition at public four year colleges and universities increased an average of 6.4% in 2008-9. Wright State continues to maintain the fourth lowest in-state undergraduate tuition rate among Ohio's thirteen four-year public institutions.
- Total state appropriations increased 7.0% in 2009 over 2008 after subtracting the effect of OhioLINK (a statewide library initiative for which the University serves as fiscal agent). Increases in 2008 and 2007 were 4.7% and 2.6%, respectively. The 2009 and 2008 increases were the largest increases in this decade, reflecting the commitment of the State for the universities foregoing undergraduate tuition increases. The increase in 2009 would have been even greater but for the need for midyear reductions in state appropriations that were required to maintain a balanced state budget.
- Net assets decreased \$3.4 million in 2009. This decrease was a result of the large losses incurred on investments of \$12.0 million but offset substantially by increases in capital assets. The University continued with its improvements in its science facilities and major renovations of its buildings at its Lake campus in Celina.
- Following a 1% increase in full time equivalent (FTE) students in 2008 over 2007, 2009 saw an increase of 3.6% over 2008. In addition, the University experienced its second-highest enrollment in terms of student headcount in the school's history (as measured fall term of 2008), short of the all-time high by only 99 students.
- For the 30th consecutive year, Wright State students brought home top honors from the National Model United Nations (NMUN) conference. No other school in the nation has achieved this record.

NMJN is the world's largest university-level simulation of the United Nations and educates more than 4,200 students about the United Nations and contemporary international issues facing our world. For the fifth consecutive year, Wright State students placed in the top three (out of 44) in the nationwide case competition sponsored by the Society for the Advancement of Management.

- In 2008 the State of Ohio awarded \$600,000 through the University to the Dayton Regional STEM (Science, Technology, Engineering, and Math) School to help fund the development and opening of a school that will offer a highly advanced curriculum in the math and sciences for grades 6-12 for students in the counties surrounding WSU. In 2009 the State awarded nearly \$4 million to eight regional institutions, led by Wright State, for funding scholarships in the areas of Science, Technology, Engineering, Mathematics, and Medicine (STEMM) at the university level. This will provide for approximately 1000 scholarships and enhance enrollments in the STEMM disciplines. In addition, \$2.7 million in *Choose Ohio First* scholarships, designed to attract and graduate more than 300 students with disabilities in STEM majors, was also awarded by the State. As a leader in the community, the University continues to be at the center of the state's efforts to promote and support the STEMM disciplines across all educational levels.
- In an effort to help ease the economic burden of financing the cost of education, the University transitioned a \$1.9 million need-based loan program into a need-based grant program. In addition, the University created a new scholarship fund for need-based students titled *The Graduation Fund: Hope for Tomorrow, Help for Today* for students who are nearing graduation but need a way to stay on track.
- The university's Board of Trustees approved a proposal to convert Wright State's academic calendar from the quarter system to the semester system effective fall quarter, 2012. This move was made in an attempt to better align Wright State's calendar with other universities to better facilitate collaborative academic programs, student transfer and articulation. Over 90 percent of the universities in the U.S. are currently on semester calendars.

Using the Annual Report

This annual report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement 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 how the university's overall financial condition has changed 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 Statement 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 Statement 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:

	2009	2008	2007
	(All dollar amounts in thousands)		
Current assets	\$ 81,284	\$ 66,445	\$ 69,407
Noncurrent assets:			
Capital assets, net	298,308	292,817	275,825
Other	<u>97,307</u>	<u>115,697</u>	<u>129,117</u>
Total assets	<u>476,899</u>	<u>474,959</u>	<u>474,349</u>
Current liabilities	78,775	69,957	69,776
Noncurrent liabilities	<u>38,096</u>	<u>41,564</u>	<u>44,949</u>
Total liabilities	<u>116,871</u>	<u>111,521</u>	<u>114,725</u>
Net assets:			
Invested in capital assets, net of related debt	267,032	257,526	238,244
Restricted	18,827	18,755	19,412
Unrestricted	<u>74,169</u>	<u>87,157</u>	<u>101,968</u>
Total net assets	<u>\$ 360,028</u>	<u>\$ 363,438</u>	<u>\$ 359,624</u>

The university's *net assets* decreased \$3.4 million in 2009 due to a loss of \$12 million in the financial markets. This \$12.0 million loss was the primary component of a \$13.0 million reduction in unrestricted net assets. *Capital assets*, net of depreciation and related debt, increased \$9.5 million to substantially offset the large decrease in unrestricted net assets. The University has continued following its capital plan and investing in previously defined targeted areas. In 2009, the primary outlays were for the continuation of improvements in the university's science facilities on its Dayton campus and major renovations of its facilities at the university's Lake campus in Celina. The Lake campus investments were substantially completed in 2009 while the science facility projects will continue well into 2010.

Total assets increased \$1.9 million in 2009 over 2008. *Current assets*, comprised primarily of cash and operating investments, student and sponsor receivables, and prepaid expenses, increased by \$14.8 million in 2009 from 2008. This increase can be attributed to an \$11.6 million increase in cash and cash equivalents and short-term investments along with an increase of \$2.4 million in prepaid expenses. The large increase in cash and cash equivalents and short-term investments is more than offset by a decrease in other long-term investments as noted in *other noncurrent assets* below. The University manages its cash and investments as one large pool, and the classification of these assets as current or noncurrent each June 30 is a function of the types of investments that are held at the end of the fiscal year and the holding period for those investments. Prepaid expenses are primarily composed of license agreements for the OhioLINK program for which the University is the fiscal agent. These prepaid assets increased \$2.4 million in 2009 from 2008 as the University acquired more of these agreements.

Other noncurrent assets decreased \$18.4 million from \$115.7 million in 2008 to \$97.3 million in 2009. These assets are comprised of long-term investments, long-term student loans receivable, and longer term prepaid expenses and deferred charges. There were basically no changes in the levels of loans receivable, prepaid expenses or deferred charges. The entire decrease of \$18.4 million was a result of changes in long-term investments. As discussed above, the majority of this decrease is simply the result of the June 30, 2009 investments having shorter maturities than the June 30, 2008 investments and therefore a greater amount classified as current assets. In addition, part of the decrease is also a result of a decrease in the value of the university's investments as a result of poor results in the financial markets during 2009. Capital assets, net of depreciation increased from \$292.8 million in 2008 to \$298.3 million in 2009. This increase of \$5.5 million primarily represents the continuation of investments in the

university's science facilities as well as renovations and improvements to facilities at the university's Lake campus.

Total assets were unchanged from 2007 to 2008. However, there was a decrease in prepaid expenses of \$3.2 million in 2008, again for OhioLINK license agreements. Long-term investments decreased \$14.0 million from 2007 to 2008 as a result of declines in the investment market and due to utilization of some reserves for both operating and capital purposes. Capital assets, net of depreciation increased \$17.0 million due primarily to investments in facilities, most notably the science facilities.

Total assets of the Wright State University Foundation decreased for the second year in a row from \$108.0 million at June 30, 2008 to \$85.1 million at June 30, 2009, a decrease of \$22.9 million. This decrease was primarily the result of a decline in long-term investments. Long-term investments comprise \$73.5 million and \$94.0 million of the \$85.1 million and \$108.0 million at June 30, 2009 and June 30, 2008, respectively. Gifts and pledges receivable comprise another \$8.1 million and \$11.8 million at June 30, 2009 and June 30, 2008, respectively. In both 2009 and 2008, poor investment returns caused the decline in investments.

Current liabilities are comprised primarily of accounts payable 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 increased \$8.8 million from \$70.0 million at June 30, 2008 to \$78.8 million at June 30, 2009. The increase was almost entirely a result of increases in accrued liabilities and deferred revenue. Accrued liabilities increased \$2.4 million as a result of the University moving away from a fully insured health plan for its employees in 2008 to a self insured plan during 2009. This had the effect of increasing the 2009 liability for insurance claims incurred through June 30 but not yet paid by \$2.1 million over 2008. Deferred revenue increased \$4.3 million in 2009 over 2008. OhioLINK had an increase of \$3.3 million in deferred revenues as not all payments from member institutions were expended in 2009 resulting in an increase in the deferral from 2008. Another \$.9 million of payments from the State of Ohio was deferred for amounts given to the University for the science facilities. Those amounts are to be expended in 2010. The largest component of current liabilities is deferred revenue, which was \$38.3 million in 2009, \$34.0 million in 2008, and \$35.2 million in 2007.

Current liabilities increased only \$.2 million from 2007 to 2008. Included in this net increase, though, was an increase in deferred student fees of \$1.8 million due to a variance in the deferral period in 2008 as compared to 2007, an increase in trade payables of \$1.2 million, and a decrease in deferred revenues from advance sponsor payments on contracts and grants of \$2.9 million. The decrease was the result of closing out an unusually high number of contracts and grants in 2008.

Noncurrent liabilities were \$41.6 million at June 30, 2008 and decreased to \$38.1 million at June 30, 2009. This decrease of \$3.5 million is the result of payments against the university's debt obligations of \$4.1 million offset slightly by an increase in the compensated absences liability.

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:

	2009	2008	2007
	(All dollar amounts in thousands)		
Invested in capital assets, net of related debt	\$ 267,032	\$ 257,526	\$ 238,244
Restricted expendable	18,827	18,755	19,412
Unrestricted:			
Designated	83,645	81,851	89,982
Undesignated	<u>(9,476)</u>	<u>5,306</u>	<u>11,986</u>
Total net assets	<u>\$ 360,028</u>	<u>\$ 363,438</u>	<u>\$ 359,624</u>

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. During 2009 the University continued the expansion, renovation, and upkeep of its facilities consistent with the university's capital plan. While 2009 was not a year of beginning many new projects, it did see the continuation of a couple of major projects that had begun in prior years. The two most notable projects were the university's science facilities at its Dayton campus and the renovation of all the primary facilities at its Celina campus. The science facilities project addresses both instructional space and research facilities. While the science facility project will continue well into 2010, the Celina project was nearing completion by the end of 2009. Aside from these two projects, most of the other improvements were routine maintenance and upkeep of aging facilities. The University annually provides some investment in its existing facilities in order to maintain them to their proper standards and to prevent the growth of deferred maintenance.

Restricted expendable represents funds that are externally restricted to specific purposes, such as student loans or sponsored projects. \$18.5 million of the restricted expendable fund balances at June 30, 2009 and June 30, 2008 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. Colleges and divisions are permitted to retain their own budgeted funds that are not spent at the close of each fiscal year. The University believes 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. The year ended June 30 2009, however, proved to be a more challenging year with respect to the university's ability to generate and grow financial resources. As with 2008, the poor performance in the financial markets put a large strain on the university's ability to continue to grow its fund balances, as it had been able to do for well over a decade prior to 2008. Accumulated reserves were needed to maintain the level of service and operations the University feels is necessary to provide students with the educational resources they require. While the colleges and divisions were able to live within their budgets and even grow their reserves to a small degree, the general university had to address a negative budget variance of approximately \$19.5 million just in investment income. Therefore, undesignated unrestricted net assets fell \$14.8 million. While this is not a desired outcome, it is understood by management that occasionally there will be years of poor performance in the investment market or other financial challenges that will require the use of prior years' accumulated reserves. This is why management is so committed to the continued practice of accumulating reserves through prudent financial management while simultaneously meeting the goals of the University.

Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents 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:

	2009	2008	2007
	<u>(All dollar amounts in thousands)</u>		
Operating Revenues:			
Student tuition & fees - net	\$ 119,655	\$ 114,734	\$ 114,223
Grants and contracts	86,786	89,859	85,389
Sales and services	8,163	7,472	7,285
Auxiliary enterprises	16,088	15,296	15,605
Other	2,287	2,686	2,558
Total	<u>232,979</u>	<u>230,047</u>	<u>225,060</u>
Operating expenses	<u>377,440</u>	<u>365,960</u>	<u>348,050</u>
Operating loss	<u>(144,461)</u>	<u>(135,913)</u>	<u>(122,990)</u>
Nonoperating revenues (expenses):			
State appropriations	104,647	98,715	94,526
Federal grants	14,251	11,230	9,328
State grants	4,412	3,588	3,121
Gifts	9,035	8,450	6,462
Investment income	(12,013)	(3,494)	16,547
Interest expense	(1,346)	(1,024)	(1,138)
Other income (expense)	(1,460)	(246)	(1,544)
Capital appropriations	19,002	7,354	7,322
Capital grants and gifts	4,523	15,154	3,132
Total	<u>141,051</u>	<u>139,727</u>	<u>137,756</u>
(Decrease) Increase in net assets	(3,410)	3,814	14,766
Net assets - beginning of year	<u>363,438</u>	<u>359,624</u>	<u>344,858</u>
Net assets - end of year	<u>\$ 360,028</u>	<u>\$ 363,438</u>	<u>\$ 359,624</u>

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

	<u>2009</u>	<u>2008</u>	<u>Difference</u>	<u>Percent Increase (Decrease)</u>
Revenues:				
Grants and contracts	\$ 25,418,964	\$ 30,294,140	\$ (4,875,176)	(16.1)%
State appropriations	<u>7,177,111</u>	<u>7,629,483</u>	<u>(452,372)</u>	<u>(5.9)%</u>
Total revenues	<u>\$ 32,596,075</u>	<u>\$ 37,923,623</u>	<u>\$ (5,327,548)</u>	<u>(14.0)%</u>
Expenses:				
Total OhioLINK	<u>\$ 32,596,075</u>	<u>\$ 37,923,623</u>	<u>\$ (5,327,548)</u>	<u>(14.0)%</u>

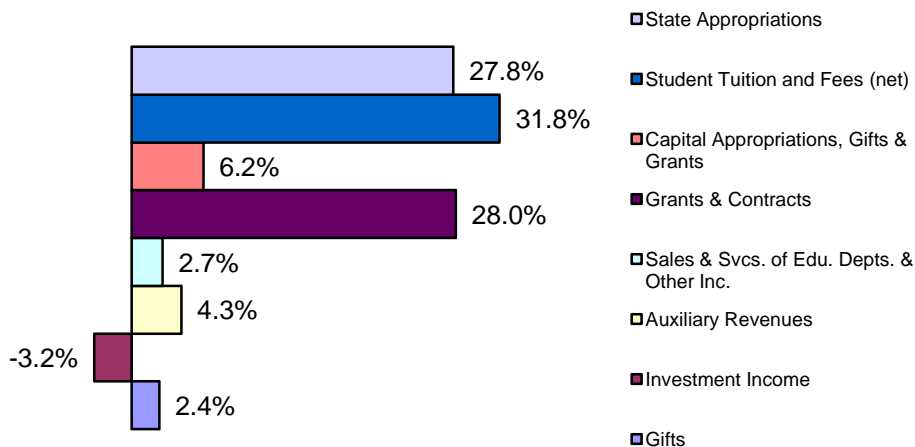
The university's primary revenue sources are state appropriations and student tuition and fees. These fund the ongoing programs and operations of the University. Accounting standards classify state appropriations as a nonoperating revenue source in the financial statements. However, since the University continues to rely upon state funding as a significant funding source for ongoing operations, it manages state funding as an operating revenue item. Enrollments at WSU rose in 2009, continuing a steady trend that has occurred over the last decade and a half. Over that same period of time the State of Ohio has been decreasing their support as a percentage of total revenues. The state's commitment over the last two fiscal years has improved to some degree, but has not kept up with the growth in students. In 2009 state appropriations increased \$6.4 million, or 7.0 percent, net of OhioLINK. 2008 also saw a more than modest increase of \$4.1 million or 4.7 percent, net of OhioLINK. While these increases are a positive indication of the state's renewed prioritization of higher education, state universities also agreed not to raise undergraduate tuition during those two fiscal years in exchange for the increased state funding. It is the state's goal, as it is the university's, to make higher education more affordable to its residents by bringing tuition levels closer to the national average. This will take time, as for years the amount of state appropriations allocated to Wright State University and higher education in general had not been keeping pace with enrollment growth, requiring the University to raise tuition at a magnitude greater than desired in order to fund the increasing costs of serving the students and to respond to inflationary pressures. The University recognizes the sacrifices made by the State during these extremely difficult economic times in order to achieve this goal. As demonstrated thus far in the biennial budget ending June 30, 2011, the State has maintained a commitment to higher education. Even so, this added commitment provides limited progress towards achieving the ultimate financial outcomes necessary to continue easing the financial burden on students and their families and requires continued sacrifices and belt-tightening by the University. The table below demonstrates just how much the State of Ohio over the past two and a half decades has forced universities to shift the burden for funding the cost of higher education to students and their families. It can be noted that even the last two years of increased commitment by the State has had little impact on the students' overall share of the required revenues.

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
2006	131,262,871	84,784,334	0.65
2007	139,584,821	86,988,360	0.62
2008	142,040,685	91,085,746	0.64
2009	150,194,749	97,469,816	0.65

The table above shows that the level of state appropriations has increased over the last three years consistent with the state's increased commitment. However, the shift of funding the costs of higher education from the State to the student was so significant over the last three decades that it will take quite some time to migrate back in the other direction. The University has been striving to create other types of revenue streams to help minimize the cost of tuition. Fundraising is a priority as is attempting to increase the level of research. Even though tuition is at a higher level than desired, the University continues to maintain a lower than average level of tuition and fees relative to other Ohio four-year public institutions. Wright State is maintaining its rank as the fourth lowest (out of 13) of the four-year public institutions with respect to undergraduate student tuition rates. It should be noted that two of the lower three universities receive special state funding for the purpose of subsidizing tuition that Wright State does not receive.

Below is a graphic illustration of revenues by source for the year ended June 30, 2009.



State appropriations increased from \$98.7 million in 2008 to \$104.6 million in 2009, an increase of \$5.9 million. There was an increase of \$4.2 million from 2007 to 2008, as state appropriations were \$94.5 million in 2007. These increases are the result of the additional investment in higher education made by the State of Ohio as previously discussed.

Net student tuition and fees were \$119.7 million, \$114.7 million, and \$114.2 million in 2009, 2008, and 2007, respectively which provided an increase of 4.4% from 2008 to 2009 and only .4% from 2007 to 2008. As discussed earlier, there were no undergraduate tuition increases in 2009 or 2008. 2009 saw an increase in student FTE of 3.6%. This in conjunction with tuition increases in graduate and professional school tuition of 4% accounts for the increase in tuition revenues in 2009.

Grants and contracts were \$105.4 million in 2009, increasing \$.7 million from the 2008 level of \$104.7 million. The 2007 level was \$97.8 million. Nongovernmental grants and contracts decreased approximately \$4.2 million due to a reduction in 2009 revenues and expenses in the OhioLINK program. In addition, this was partially offset from federal grants increasing \$3.0 million primarily due to an increase in federal Pell grants. The 2008 increase was almost entirely the result of an increase in revenues and expenses in the OhioLINK program.

Auxiliary revenues have remained relatively constant over the last three years. Total revenues were \$16.1 million, \$15.3 million, and \$15.6 million for the years ended June 30, 2009, 2008, and 2007, respectively. Auxiliary enterprises are comprised of residence services, bookstores, food services, vending, parking and transportation, intercollegiate athletics, the Student Union, and the Nutter Center. Food services accounted for a \$.8 million increase in revenues in 2009 due to an increase in students participating in the board plan and an increase in board rates.

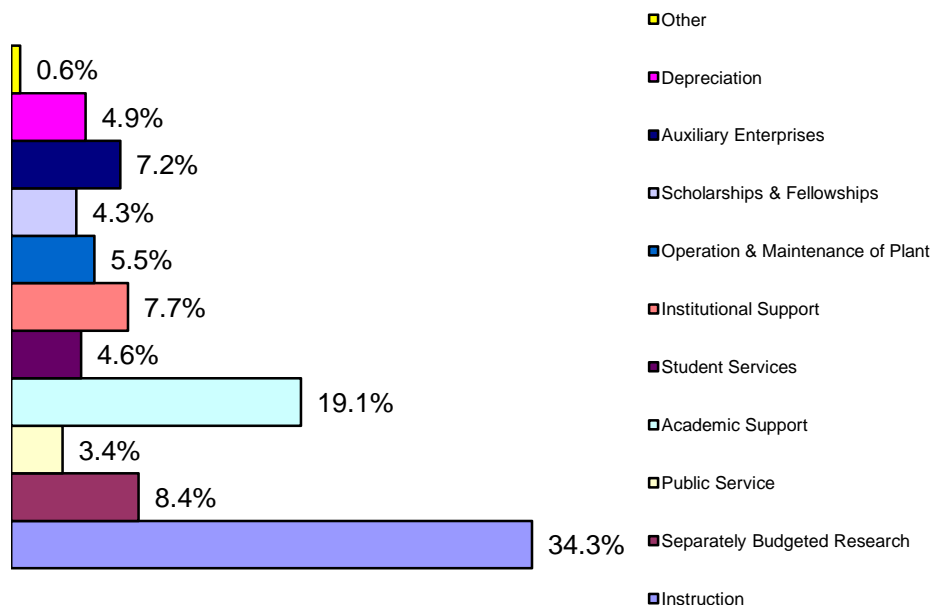
Sales and services, which are primarily revenues generated from specific departmental sales activities to organizations external to the University, were \$8.2 million, \$7.5 million, and \$7.3 million for the years ended June 30, 2009, 2008 and 2007, respectively. The largest amounts of revenue are generated from the Boonshoft School of Medicine in the form of clinical income and pharmacy sales and also from computing and telecommunications revenues.

Investment income suffered a loss for the second year in a row in 2009 as the investment markets continued their downward spiral begun in fiscal 2008 that lasted well into 2009. While the markets did rebound the last quarter of the fiscal year, the University still ended the year with a \$12 million loss in investment earnings. The loss was \$3.5 million in 2008, just one year after a record level of investment income for the University in 2007 of \$16.5 million. The losses in the investment market during 2009 were well publicized and affected all businesses and individuals. Even though the university's investment policy is designed to invest a large share of its operating reserves in a diverse array of longer term investment instruments in order to maximize long-term growth and current income, investment values were still severely impacted. All market sectors other than cash saw a material decline in value. While the university's investment returns were better than the established benchmarks for the various market sectors, the absolute returns still suffered. The investment policy is intended to maximize returns over the long run, thus permitting higher investment income for support of university goals and to permit accumulation of more reserves. It was the accumulation of these reserves that helped buffer the impact of the losses and still allow the University to accomplish its budgetary and strategic goals. While the University is aware that its investment policy entails the risk of greater volatility in investment performance, it understands that the financial markets of 2008 and 2009 were unique and provide no reason to stray from its underlying investment philosophy. Markets have rebounded since June, 2009 and the University has been reaping the benefits of those market advances by continuing with its long-term investment strategies.

Capital Appropriations, Gifts and Grants were \$23.5 million in 2009, an increase of only \$1.0 million over the \$22.5 million realized in 2008. During 2009 the University received capital appropriations from the State of Ohio in the amount of \$19.0 million. Of this amount, \$12.1 million was for the university's science facilities, \$2.9 million for the renovations at the university's Celina campus, and another \$2.4 million for campus-wide renovations. In addition, the University received approximately \$2.6 million in gifts from private donors for that same Celina project. There were capital gifts that occurred in 2008 in the amount of \$12.9 million. This included a donation of software in the amount of \$6.1 million and cash donations in the amount of \$6.6 million to fund several capital projects, most notably White Hall. Capital appropriations

from the State of Ohio comprised the balance of the 2008 revenue. Capital appropriations, gifts and grants amounted to \$10.5 million in 2007.

The following is a graphic illustration of expenses by function for the year ended June 30, 2009.



Overall operating expenses were \$377.4 million in 2009 as compared to \$366.0 million and \$348.1 million in 2008 and 2007, respectively. This equates to an \$11.4 million increase in 2009, or only 3.1%. Employee compensation and benefits are the primary reason for the increase. They increased from \$220.8 million in 2008 to \$234.6 million in 2009, an increase of \$13.8 million. This increase alone exceeded the overall operating expenses increase. Wages increased from \$172.6 million to \$180.8 million, or 4.8%. Normal compensation increases, those negotiated through collective bargaining, as well as a number of added strategic positions contributed to this increase. Benefits increased 11.7% from \$48.1 million to \$53.8 million. The largest component of this increase was for health care. The University continues to discuss and implement new ways of addressing health care to help contain the costs. Effective January 1 2009, the University became self insured with the expectation of reducing administrative fees associated with the processing of claims. In addition, at that same time the University offered a high deductible health plan as an option in conjunction with a health savings account for employees. While initial enrollment was only about 12% of eligible employees, the University expects savings over time. The university's vacation and sick leave expenses and retirement contributions for employees also increased in 2009 in conjunction with the increased compensation expenses. Student aid increased in 2009 over 2008 by approximately \$2.2 million. The largest increases in external aid were in the federal Pell grants and the state OIG/OCOG grants. Those two programs together accounted for approximately a \$4.0 million increase. The University also increased internally funded need based aid of approximately \$.8 million. Keep in mind that the majority of all aid is classified as scholarship allowance on the Statement of Revenues, Expenses and Changes in Net Assets, therefore much of these financial aid increases are reflected there. Offsetting all of these aforementioned expense increases is a \$5.3 million decrease of expenditures for OhioLINK for their license agreements purchased for access to electronic information for its members. The 2008 operating expenses increased \$17.9 million over 2007 as a result of compensation and benefit increases, increases in OhioLINK license agreements, and increases in financial aid. In addition, depreciation expense increased from \$15.6 million in 2007 to \$17.1 million in 2008.

Statements of Cash Flows

The Statement of Cash Flows also provides information about the university's financial health by reporting the cash receipts and cash payments of the University during the year ended June 30, 2009. A summary of the Statements of Cash Flows is as follows:

	2009	2008	2007
	(All dollar amounts in thousands)		
Cash provided (used) by:			
Operating activities	\$ (120,109)	\$ (116,849)	\$ (104,229)
Noncapital financing activities	132,400	122,181	112,355
Capital and related financing activities	(7,143)	(15,851)	(34,656)
Investing activities	<u>7,706</u>	<u>15,447</u>	<u>7,941</u>
Net increase (decrease) in cash and cash equivalents	12,854	4,928	(18,589)
Cash and cash equivalents-beginning of year	<u>23,702</u>	<u>18,774</u>	<u>37,363</u>
Cash and cash equivalents-end of year	<u>\$ 36,556</u>	<u>\$ 23,702</u>	<u>\$ 18,774</u>

Cash and cash equivalents increased \$12.9 million from 2008 to 2009. Cash flows from operating activities decreased \$3.3 million primarily as a result of increases in operating costs as previously discussed that exceeded our increases in operating revenues, primarily student tuition and fees and grant and contract revenues. Cash from noncapital financing activities increased \$10.2 million from 2008 to 2009. This occurred primarily as a result of an increase in state appropriations of \$5.9 million and an increase in noncapital grants, most notably Pell grants, in the amount of \$3.8 million. The net outflow of cash for capital and related financing activities of \$7.1 million is the result of several items. Capital projects and capital acquisitions, net of the capital funding received from the State of Ohio, provided for an outlay of \$6.3 million. The principal projects performed were the science facilities and Celina campus renovations. There were also gifts received to help fund these and other capital projects in the amount of \$4.5 million. The University also had debt service payments amounting to \$5.4 million. The net cash provided in investing activities of \$7.7 million is the net result of all investment activities: purchases, sales, and interest earnings. Consistent with 2008, the gross volume of transactions was down even further than the prior year due to less activity stemming from the poor investment market. The increase in cash and cash equivalents from 2007 to 2008 of \$4.9 million is a result of increases in state appropriations, gifts, and grants offset by increases in operating cash flows. In addition, investing activities were down but provided for a greater amount of cash than in 2007.

Capital Assets and Debt

Capital Assets

The University had approximately \$298.3 million invested in capital assets, net of accumulated depreciation of \$212.8 million at June 30, 2009. Capital assets were \$292.8 million, net of accumulated depreciation of \$200.5 million at June 30, 2008. Depreciation expense for the years ended June 30, 2009 and 2008 was \$18.5 million and \$17.1 million, respectively. A summary of net capital assets for the year ended June 30 is as follows:

	2009	2008	2007
	(All dollar amounts in thousands)		
Land, land improvements and infrastructure	\$ 23,213	\$ 23,091	\$ 23,645
Buildings	223,787	215,571	170,727
Machinery and equipment	30,257	35,289	29,451
Library books and publications	18,929	18,729	18,487
Construction in progress	2,122	137	33,515
Total capital assets - net	<u>\$ 298,308</u>	<u>\$ 292,817</u>	<u>\$ 275,825</u>

As is evidenced by the relatively small increase in the value of total capital assets, the level of capital activity performed by the University decreased in 2009, but the University did continue to move forward in the renovation and improvement of its facilities. In 2009 the major improvements were the continued expansion and improvement of its science facilities as well as major renovations of all of the primary facilities at its Lake campus. The University also performed a standard level of maintenance and rehabilitation of all campus facilities, addressing building infrastructure needs as well as maintenance of its outer grounds and parking lots.

Debt

The University entered into no new debt agreements during 2009. Consistent with its historical approach towards the use of debt, the University continues to carry a relatively low level of debt on its books. The majority of the university's outstanding debt is from two different bond issues, one in 2003 and another in 2004. These relatively small bond issues were used for various capital projects such as the science facilities, a new ERP system, improvements in housing and food venues, and other infrastructure needs. The University received a bond rating for the 2004 bond issue from Moody's Investors Service of A2. That rating has remained unchanged since that date.

The University is planning during the first half of 2010 to issue approximately \$11.5 million of bonds to fund the cost of energy efficiency improvement projects across campus. These projects are being performed in an effort to reduce energy consumption as required by recent state legislation. The reduction in energy usage is expected to more than pay for the debt service on this new bond issuance. The University does not expect this modest issuance to affect its current A2 bond rating.

Outstanding debt was \$31.6 million, \$35.6 million, and \$38.7 million at June 30, 2009, 2008, and 2007, respectively. The 2009 balance of \$31.6 million includes \$31.0 million of outstanding bonds and equipment leases of \$.6 million.

Factors That Will Affect the Future

Much like the rest of the country, the University is entering 2010 with much anxiety. While we continue to plan for the future of our institution and our students with the same thoughtful and strategic focus we have always utilized, the economic uncertainty and instability of our times is cause for concern. Particularly in the State of Ohio where so many jobs have been lost and the manufacturing base of our state has been badly wounded, revenues are shrinking. The State has been struggling to create a balanced budget for the two year biennium of 2010 and 2011. Several of the expected revenue sources are temporary or contingent upon the outcome of certain legal challenges. While the State has managed to keep higher education as a priority, much of our state funding is comprised of federal pass-through dollars obtained as a part of federal stimulus legislation. At the end of the biennium, this funding disappears with no identified source as its replacement. It is uncertain whether the Ohio economy can rebound sufficiently in that short period of time to replace the revenues lost when the federal stimulus funds disappear. With so many families struggling financially, it is much more of a challenge for them to meet their financial obligations including tuition and related fees of attending Wright State University. The University hasn't escaped these difficult economic times, either. We were forced to perform mid-year budget cuts during 2009.

Raises were non-existent for all but bargaining unit employees. In addition, shortly after year end, the University offered a voluntary separation incentive to employees who met certain service criteria in an effort to scale back payroll and benefit costs so as to minimize layoffs. There were 117 faculty and staff who elected the separation incentive. Many of those positions, once vacated, will not be re-filled. Even though there will be a long-term economic gain to the University, there will most certainly be a productivity and service loss from losing these valued employees. Unfortunately, current economic challenges require steps such as these.

While the broader economic horizon appears uncertain, there are some positive events occurring. Since March of 2009 the financial markets have been improving. This is helping to re-establish some of the university's reserves that were lost when the markets soured. The University had come to rely upon these reserves to help produce a stream of income to aid operations. Until the recent downturn in the markets, the University had been steadily building these reserves and adjusting its investment philosophy to prudently but pragmatically maximize these supplemental earnings. Also, as previously mentioned, the State has continued to make higher education a priority in its budget. Even while struggling to create a comprehensive state budget, the governor and state legislators haven't strayed from this priority. This recognition of the importance of higher education as a catalyst in determining the future success of the State should prove to be an asset as we move forward. We continue to partner with the State in trying to keep the cost of higher education affordable for the state's residents. In addition, during these difficult economic times enrollments have increased. While this can't be relied upon as a permanent increase in our base enrollments, it can prove to be a useful bridge until we can again establish a more stable revenue base. This will be important to help address the continuing demands of basic operating costs. Employee compensation and benefits, utilities, technology, and deferred maintenance are annual demands that cannot adequately be addressed on a sporadic basis. Add to this the need to develop programs, to grow our research base, and to become more engaged with the community while keeping tuition levels affordable to students and their families makes our challenges formidable. Wright State University remains steadfast in its commitment to meet all of these challenges so as to enrich the lives of our students and the communities we serve.



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
of Wright State University
Dayton, Ohio

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Wright State University (the "University"), a component unit of the State of Ohio, as of and for the years ended June 30, 2009 and 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Wright State University as of June 30, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 14 is not a required part of the basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

(Continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2009, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Columbus, Ohio
October 15, 2009

WRIGHT STATE UNIVERSITY
Statements of Net Assets
June 30, 2009 and 2008

ASSETS	2009		2008	
	University	Foundation	University	Foundation
Current assets:				
Cash and cash equivalents	\$ 36,556,073	\$ 2,453,452	\$ 23,701,950	\$ 1,012,378
Short-term investments	169,533		1,468,319	
Accounts receivable (net of allowance for doubtful accounts of \$1,280,000 in 2009 and \$1,320,000 in 2008 - Note 3)	22,725,345	143,417	22,872,357	188,520
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$2,200 in 2009 and \$874 in 2008)		4,421,589		6,446,864
Loans receivable (net of allowance for doubtful loans of \$2,073,000 in 2009 and \$1,762,000 in 2008)	4,480,949		3,429,059	
Inventories	836,445		781,594	
Prepaid expenses	14,134,562		11,692,662	
Deferred charges	2,381,235		2,499,098	
Total current assets	81,284,142	7,018,458	66,445,039	7,647,762
Noncurrent assets:				
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$34,400 in 2009 and \$46,526 in 2008)		3,690,511		5,398,656
Loans receivable (net of allowance for doubtful loans of \$189,000 in 2009 and \$188,000 in 2008)	18,693,662		18,571,058	
Other assets	608,854	190,276	774,228	250,350
Other long-term investments	78,004,730	73,504,351	96,351,747	94,030,612
Capital assets, net (Note 4)	298,307,669	650,000	292,816,910	650,000
Total noncurrent assets	395,614,915	78,035,138	408,513,943	100,329,618
Total assets	\$ 476,899,057	\$ 85,053,596	\$ 474,958,982	\$ 107,977,380
 LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable trade and other	\$ 11,732,229	\$ 103,443	\$ 10,860,799	\$ 171,119
Accounts payable to Wright State University		1,068,713		1,129,141
Accrued liabilities	17,787,857		15,342,162	
Deferred revenue (Note 1)	38,339,494		34,032,111	
Refunds and other liabilities	847,677	1,010,742	660,992	1,312,457
Current portion of long-term liabilities (Note 5)	10,068,388	552,042	9,060,865	652,496
Total current liabilities	78,775,645	2,734,940	69,956,929	3,265,213
Noncurrent liabilities:				
Long-term liabilities (Note 5)	38,095,634	458,658	41,564,022	482,404
Total noncurrent liabilities	38,095,634	458,658	41,564,022	482,404
Total liabilities	116,871,279	3,193,598	111,520,951	3,747,617
 Net assets:				
Invested in capital assets, net of related debt	267,032,046	650,000	257,525,679	650,000
Restricted - nonexpendable:				
Instruction and departmental research		13,766,928		13,574,639
Separately budgeted research		4,925,308		330,719
Public service		199,798		169,394
Academic support		474,221		452,670
Student services		23,474		9,746
Operation and maintenance of plant		1,436,845		2,133,903
Scholarships and fellowships		11,404,567		10,546,640
Auxiliaries		202,965		213,393
Restricted - expendable:				
Instruction and departmental research	7,751	25,328,473	4,116	34,480,750
Separately budgeted research		1,710,106		2,709,309
Public service		995,396		891,868
Academic support		1,331,453		1,503,121
Student services		195,758		288,593
Institutional support		5,668,758		11,004,750
Operation and maintenance of plant		829,549		811,322
Scholarships and fellowships	2,948	11,199,632	2,948	21,095,297
Loans	18,536,113		18,486,043	
Debt service	279,825		262,467	
Auxiliaries		52,671		141,622
Unrestricted	74,169,095	1,464,096	87,156,778	3,222,027
Total net assets	360,027,778	81,859,998	363,438,031	104,229,763
Total liabilities and net assets	\$ 476,899,057	\$ 85,053,596	\$ 474,958,982	\$ 107,977,380

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	2009		2008	
	University	Foundation	University	Foundation
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$30,540,000 in 2009 and \$27,307,000 in 2008)	\$ 119,654,749	\$	\$ 114,733,685	\$
Federal grants and contracts	37,362,224		36,423,211	
State grants and contracts	7,835,911		7,600,127	
Local grants and contracts	360,263		418,746	
Nongovernmental grants and contracts	41,227,106		45,417,091	
Sales and services	8,163,327		7,471,701	
Auxiliary enterprises sales (net of scholarship allowances of \$1,846,000 in 2009 and \$1,945,000 in 2008)	16,088,088		15,296,295	
Gifts and contributions		4,890,021		8,215,279
Other operating revenues	2,286,993		2,686,470	
Total operating revenues	232,978,661	4,890,021	230,047,326	8,215,279
OPERATING EXPENSES				
Educational and general:				
Instruction and departmental research	130,319,583		122,399,987	
Separately budgeted research	31,829,575		30,003,263	
Public service	12,988,800		12,578,969	
Academic support	72,588,544		78,291,188	
Student services	17,362,681		17,085,740	
Institutional support	29,205,552	155,361	25,959,586	140,623
Operation and maintenance of plant	21,039,879		21,570,038	
Scholarships and fellowships	16,181,322		14,020,716	
Total educational and general	331,515,936	155,361	321,909,487	140,623
Auxiliary enterprises	27,467,263		26,982,389	
Depreciation	18,456,765		17,068,378	
Total operating expenses	377,439,964	155,361	365,960,254	140,623
Operating (loss)/revenue	(144,461,303)	4,734,660	(135,912,928)	8,074,656
NONOPERATING REVENUES (EXPENSES):				
State appropriations	104,646,927		98,715,229	
Federal grants	14,250,902		11,230,106	
State grants	4,412,197	5,000,000	3,587,751	
Gifts	9,034,863		8,449,720	
Investment (loss)/income (net of investment expenses of \$117,000 in 2009 and \$131,000 in 2008 for WSU and \$381,998 in 2009 and \$366,583 in 2008 for Foundation)	(12,012,750)	(19,641,319)	(3,494,059)	(6,620,028)
Interest on capital asset-related debt	(1,345,713)		(1,024,476)	
Payments to Wright State University		(12,463,106)		(15,782,394)
Other nonoperating (expenses)	(1,460,576)		(245,394)	
Net nonoperating revenues/(expenses)	117,525,850	(27,104,425)	117,218,877	(22,402,422)
(Loss) before other revenues, expenses, gains or losses	(26,935,453)	(22,369,765)	(18,694,051)	(14,327,766)
Capital appropriations from the State of Ohio	19,001,771		7,354,063	
Capital grants and gifts	4,523,429		15,154,057	
(Decrease)/increase in net assets	(3,410,253)	(22,369,765)	3,814,069	(14,327,766)
NET ASSETS				
Net assets - beginning of year	363,438,031	104,229,763	359,623,962	118,557,529
Net assets - end of year	\$ 360,027,778	\$ 81,859,998	\$ 363,438,031	\$ 104,229,763

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2009</u>	<u>2008</u>
Student tuition and fees	\$ 120,382,626	\$ 115,772,522
Federal, state, local, and nongovernmental grants and contracts	91,683,677	85,706,360
Sales and services of educational and other departmental activities	7,176,657	7,948,081
Payments to employees	(180,223,595)	(172,564,427)
Payments for benefits	(51,464,930)	(47,899,029)
Payments to suppliers	(106,026,380)	(106,448,533)
Payments for scholarships and fellowships	(16,886,582)	(15,117,186)
Student loans issued	(4,165,684)	(3,788,866)
Student loans collected	2,991,190	2,759,668
Student loan interest and fees collected	406,140	376,058
Auxiliary enterprise sales	16,017,485	16,405,584
	<hr/>	<hr/>
Net cash (used) by operating activities	(120,109,396)	(116,849,768)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	104,646,927	98,715,229
Grants for noncapital purposes	18,663,099	14,817,857
Gifts	9,090,371	8,648,201
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	132,400,397	122,181,287
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations from the State of Ohio	18,702,355	7,771,532
Capital grants and gifts received	4,523,429	15,154,057
Purchases of capital assets	(24,973,492)	(33,697,459)
Sales of capital assets	11,614	16,801
Principal paid on capital debt and leases	(4,060,865)	(4,071,730)
Interest paid on capital debt and leases	(1,345,713)	(1,024,476)
	<hr/>	<hr/>
Net cash (used) by capital and related financing activities	(7,142,672)	(15,851,275)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,930,514	28,398,869
Interest on investments	3,287,660	7,257,975
Purchase of investments	(11,512,380)	(20,209,235)
	<hr/>	<hr/>
Net cash provided by investing activities	7,705,794	15,447,609
 Net Increase in Cash and Cash Equivalents	12,854,123	4,927,853
 Cash and Cash Equivalents - Beginning of Year	<hr/>	<hr/>
	23,701,950	18,774,097
 Cash and Cash Equivalents - End of Year	\$ 36,556,073	\$ 23,701,950
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See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:

	<u>2009</u>	<u>2008</u>
Operating loss	\$ (144,461,303)	\$ (135,912,928)
Depreciation	18,456,765	17,068,378
Provision for doubtful accounts	930,865	905,612
Provision for doubtful loans	767,976	304,648
Changes in assets and liabilities:		
Accounts receivable	299,844	(801,171)
Inventory	(54,851)	39,700
Prepaid expenses	(2,376,205)	3,060,819
Deferred charges	117,863	(332,640)
Other assets	165,374	(190,573)
Accounts payable	333,696	1,636,313
Accrued liabilities	2,445,695	300,987
Deferred revenue	3,420,670	(1,153,045)
Compensated absences	1,600,000	(500,000)
Refunds and other liabilities	186,685	57,978
Loans to students and employees	(1,942,470)	(1,333,846)
Net cash (used) by operating activities	<u>\$ (120,109,396)</u>	<u>\$ (116,849,768)</u>

Noncash Transactions:

Capital lease	<u>\$ -</u>	<u>\$ 958,521</u>
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See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY

Notes to Financial Statements

Year Ended June 30, 2009

(1) Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Wright State University (the University) is a state-assisted institution of higher education created in 1967. The University has an enrollment of approximately 17,700 undergraduate, graduate, and professional students on its two campuses. The financial statements include the university's eight 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 discretely presented 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. 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 (the Foundation) is a legally separate, 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. 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 using the economic resources measurement focus and on the full accrual basis of accounting, whereby revenue is recognized in the period earned, or in the case of advances from other governments, when all eligibility requirements are met in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Expenses are recognized when the related liabilities are incurred.

Financial Statements

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.

Wright State University

Notes to Financial Statements (Continued)

Pursuant to GASB Statement No. 35, the University follows GASB guidance as applicable to its business-type activities, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued prior to November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include amounts held in the State Treasury Asset Reserve of Ohio (STAROhio). 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, 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.

Inventories

Inventories, which consist principally of publications, general merchandise and other goods, are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Capital Assets and Collections

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. Effective July 1, 2008, the University increased its threshold for capitalizing assets with an estimated useful life of more than one year from \$3,000 to \$5,000. 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.

Wright State University
Notes to Financial Statements
(Continued)

Compensated Absences

Compensated absences is comprised of vacation and sick leave benefits. Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to service already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability will include employees currently eligible to receive termination benefits and those identified as probable of receiving payment in the future.

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 \$25.3 million and \$11.4 million, respectively, for the year ended June 30, 2009 and \$22.0 million and \$11.0 million, respectively, for the year ended June 30, 2008.

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, such as those received from grantors.
- 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.

It is the university's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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, some federal and state grants, 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 recurring nonoperating expenses are net losses on the disposition of capital assets and interest expense on capital assets-related debt.

OhioLINK

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 and

Wright State University
Notes to Financial Statements
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from other college and university libraries and expenses are all included in the statements of revenues, expenses, and changes in net assets. The total revenues and expenses attributable to OhioLINK were \$32,596,075 and \$37,923,623 for the years ended June 30, 2009 and 2008, respectively.

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 2008 comparative information to conform to the 2009 presentation. These reclassifications had no impact on the 2008 total net assets or change in net assets.

(2) Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments in the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined to include investments with original maturities of three months or less. Consistent with this definition, university funds on deposit in the State Treasury Asset Reserve of Ohio are classified as cash equivalents in the statements of net assets. However, for GASB Statement No. 3 disclosure purposes (see below), the funds in the State Treasury Asset Reserve of Ohio are classified as investments.

Deposits

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

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Notes to Financial Statements
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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, 2009 and 2008, the university's bank balances are \$32,677,694 and \$22,357,234, respectively. Of these balances, \$11,899,056 and \$19,372,901, 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:

		2009		2008
Petty cash	\$	56,920	\$	57,626
Demand deposits		21,154,465		16,427,175
Money market funds		8,169,692		2,075,703
Total	\$	29,381,077	\$	18,560,504

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:

Description	Fair Value	
	2009	2008
U.S. Treasury securities	\$ 2,789,676	\$ 4,290,413
U.S. Agency securities	4,008,933	5,467,751
Common and preferred stock	362,617	506,541
Corporate bonds and notes	4,355,091	3,604,267
State Treasury Asset Reserve of Ohio	7,174,996	5,141,446
Equity mutual funds	41,522,452	55,887,279
Bond mutual funds	25,132,294	28,060,615
Other	3,200	3,200
Total	\$ 85,349,259	\$ 102,961,512

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Notes to Financial Statements
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The various investments in stocks, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the University.

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 Barclays Capital Aggregate Bond Index.

Wright State University

Notes to Financial Statements
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The maturity of university investments at June 30 is as follows:

Investment Type	2009 Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	\$ 2,789,676	\$ 20,348	\$ 2,769,328	\$	\$
U.S. Agency securities	4,008,933		3,599,978	373,633	35,322
Corporate bonds and notes	4,355,091	149,185	3,910,160		295,746
Bond mutual funds	25,132,294		5,831,975	19,300,319	
Total	<u>\$ 36,285,994</u>	<u>\$ 169,533</u>	<u>\$ 16,111,441</u>	<u>\$ 19,673,952</u>	<u>\$ 331,068</u>

Investment Type	2008 Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	\$ 4,290,413	\$	\$ 4,290,413	\$	\$
U.S. Agency securities	5,467,751	844,039	4,498,045	80,902	44,765
Corporate bonds and notes	3,604,267	624,280	2,591,154		388,833
Bond mutual funds	28,060,615		7,013,747	21,046,868	
Total	<u>\$ 41,423,046</u>	<u>\$ 1,468,319</u>	<u>\$ 18,393,359</u>	<u>\$ 21,127,770</u>	<u>\$ 433,598</u>

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, 2009 and 2008, the total value of mortgage pass-through securities is \$402,929 and \$125,667, 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.

Wright State University

Notes to Financial Statements
(Continued)

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

<u>2009</u>						
Credit Rating	Total	U.S. Treasury Securities	U.S. Agency Securities	Corporate Bonds and Notes	State Treasury Asset Reserve (STAROhio)	Bond Mutual Funds
AAA/Aaa	\$ 14,952,999	\$ 2,789,676	\$ 4,008,933	\$ 979,394	\$ 7,174,996	\$
AA/Aa	25,895,768			763,474		25,132,294
A	1,868,249			1,868,249		
BBB/Baa	739,549			739,549		
Not Rated	4,425			4,425		
Total	<u>\$ 43,460,990</u>	<u>\$ 2,789,676</u>	<u>\$ 4,008,933</u>	<u>\$ 4,355,091</u>	<u>\$ 7,174,996</u>	<u>\$ 25,132,294</u>

<u>2008</u>						
Credit Rating	Total	U.S. Treasury Securities	U.S. Agency Securities	Corporate Bonds and Notes	State Treasury Asset Reserve (STAROhio)	Bond Mutual Funds
AAA/Aaa	\$ 18,746,315	\$ 4,290,413	\$ 5,467,751	\$ 706,428	\$ 5,141,446	\$ 3,140,277
AA/Aa	25,792,575			872,237		24,920,338
A	1,269,849			1,269,849		
BBB/Baa	707,101			707,101		
BB/Ba	48,652			48,652		
Total	<u>\$ 46,564,492</u>	<u>\$ 4,290,413</u>	<u>\$ 5,467,751</u>	<u>\$ 3,604,267</u>	<u>\$ 5,141,446</u>	<u>\$ 28,060,615</u>

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, 2009 and 2008, \$11,153,701 and \$13,362,431, 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. securities. Equity and fixed income managers are required to limit

Wright State University

Notes to Financial Statements
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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, 2009 and 2008, the university's portfolio does not hold any issuer which exceeds five percent of the university's total investments.

Foreign Currency Risk Foreign currency risk relates to the possible adverse effects 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. As of June 30, 2009 and 2008, the university's exposure to foreign currency is limited to its investment in international mutual funds of \$10,834,690 and \$15,330,953, respectively.

Investment Income The composition of investment income is as follows:

	Year Ended June 30	
	2009	2008
Net interest and dividend income	\$ 2,076,723	\$ 3,027,306
Realized gains on sales	1,164,013	4,216,154
Unrealized (losses) in fair value	(15,253,486)	(10,737,519)
Total	\$ (12,012,750)	\$ (3,494,059)

(3) Accounts Receivable

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

	2009	2008
Sponsor receivables	\$ 10,876,220	\$ 12,513,272
Student and student-related accounts	9,053,283	9,040,069
Wright State University Foundation	1,068,713	1,129,141
Interest receivable	120,733	167,657
State appropriations	1,552,634	429,623
Other, primarily departmental sales and services	1,333,762	912,595
Total	24,005,345	24,192,357
Less: Allowance for doubtful accounts	1,280,000	1,320,000
Net accounts receivable	\$ 22,725,345	\$ 22,872,357

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Notes to Financial Statements
(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 is summarized as follows:

	<u>Balance 07/01/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 06/30/2009</u>
Land	\$ 3,049,830	\$	\$ (300)	\$ 3,049,530
Land improvements and infrastructure	30,832,140	1,119,417		31,951,557
Buildings	328,502,898	16,330,891		344,833,789
Machinery and equipment	81,011,965	3,469,417	(7,255,281)	77,226,101
Library books and publications	49,770,195	2,515,394	(406,888)	51,878,701
Construction in progress	<u>137,298</u>	<u>1,984,595</u>		<u>2,121,893</u>
Total	493,304,326	25,419,714	(7,662,469)	511,061,571
Less accumulated depreciation:				
Land improvements and infrastructure	10,790,979	997,612		11,788,591
Buildings	112,932,256	8,114,196		121,046,452
Machinery and equipment	45,723,117	7,029,693	(5,783,391)	46,969,419
Library books and publications	<u>31,041,064</u>	<u>2,315,264</u>	<u>(406,888)</u>	<u>32,949,440</u>
Total accumulated depreciation	<u>200,487,416</u>	<u>18,456,765</u>	<u>(6,190,279)</u>	<u>212,753,902</u>
Capital assets, net	<u>\$ 292,816,910</u>	<u>\$ 6,962,949</u>	<u>\$ (1,472,190)</u>	<u>\$ 298,307,669</u>

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Notes to Financial Statements
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	Balance 07/01/2007	Additions	Retirements	Transfers	Balance 06/30/2008
Land	\$ 3,049,830	\$	\$	\$	\$ 3,049,830
Land improvements and infrastructure	30,401,057	431,083			30,832,140
Buildings	276,754,435	18,267,937		33,480,526	328,502,898
Machinery and equipment	70,665,172	13,166,600	(2,819,807)		81,011,965
Library books and publications	47,620,426	2,353,967	(204,198)		49,770,195
Construction in progress	<u>33,515,105</u>	<u>102,719</u>		<u>(33,480,526)</u>	<u>137,298</u>
Total	462,006,025	34,322,306	(3,024,005)		493,304,326
Less accumulated depreciation:					
Land improvements and infrastructure	9,805,395	985,584			10,790,979
Buildings	106,027,299	6,904,957			112,932,256
Machinery and equipment	41,214,298	7,066,431	(2,557,612)		45,723,117
Library books and publications	<u>29,133,856</u>	<u>2,111,406</u>	<u>(204,198)</u>		<u>31,041,064</u>
Total accumulated depreciation	<u>186,180,848</u>	<u>17,068,378</u>	<u>(2,761,810)</u>		<u>200,487,416</u>
Capital assets, net	<u>\$ 275,825,177</u>	<u>\$ 17,253,928</u>	<u>\$ (262,195)</u>	<u>\$</u>	<u>\$ 292,816,910</u>

Wright State University

Notes to Financial Statements
(Continued)

(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 years ended June 30, 2009 and 2008 is summarized as follows:

	Beginning Balance <u>07/01/2008</u>	Additions	Principal Repayments Reductions	Ending Balance <u>06/30/2009</u>	Current Portion
Bonds and equipment lease purchase obligations:					
General obligation bonds	\$ 34,734,594		\$ 3,724,233	\$ 31,010,361	\$ 3,838,108
Equipment leases	<u>890,293</u>		<u>336,632</u>	<u>553,661</u>	<u>230,280</u>
Total bonds and equipment leases	\$ 35,624,887		\$ 4,060,865	\$ 31,564,022	\$ 4,068,388
Other liabilities:					
Compensated absences	<u>15,000,000</u>	<u>6,297,257</u>	<u>4,697,257</u>	<u>16,600,000</u>	<u>6,000,000</u>
Total other liabilities	<u>15,000,000</u>	<u>6,297,257</u>	<u>4,697,257</u>	<u>16,600,000</u>	<u>6,000,000</u>
Total long-term liabilities	<u>\$ 50,624,887</u>	<u>\$ 6,297,257</u>	<u>\$ 8,758,122</u>	<u>\$ 48,164,022</u>	<u>\$ 10,068,388</u>

	Beginning Balance <u>07/01/2007</u>	Additions	Principal Repayments Reductions	Ending Balance <u>06/30/2008</u>	Current Portion
Bonds and equipment lease purchase obligations:					
General obligation bonds	\$ 38,402,229		\$ 3,667,635	\$ 34,734,594	\$ 3,724,233
Equipment leases	<u>335,867</u>	<u>958,521</u>	<u>404,095</u>	<u>890,293</u>	<u>336,632</u>
Total bonds and equipment leases	\$ 38,738,096	\$ 958,521	\$ 4,071,730	\$ 35,624,887	\$ 4,060,865
Other liabilities:					
Compensated absences	<u>15,500,000</u>	<u>6,092,691</u>	<u>6,592,691</u>	<u>15,000,000</u>	<u>5,000,000</u>
Total other liabilities	<u>15,500,000</u>	<u>6,092,691</u>	<u>6,592,691</u>	<u>15,000,000</u>	<u>5,000,000</u>
Total long-term liabilities	<u>\$ 54,238,096</u>	<u>\$ 7,051,212</u>	<u>\$ 10,664,421</u>	<u>\$ 50,624,887</u>	<u>\$ 9,060,865</u>

Bonds payable on June 30, 2009 consist of Series 2003 and 2004 General Receipts Serial and Term bonds. The maturity dates, interest rates, and the outstanding principal balances of capital

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Notes to Financial Statements
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activities at June 30, 2009 are as follows:

Description	Maturity Dates	Interest Rates	Outstanding Principal	Unamortized Premium	Total
Bonds payable:					
Series 2003	2009-2023	4.00% - 5.00%	\$ 5,950,000	\$ 197,863	\$ 6,147,863
Series 2004	2009-2029	3.25% - 5.00%	<u>24,100,000</u>	<u>762,498</u>	<u>24,862,498</u>
Total bonds payable			30,050,000	960,361	31,010,361
Equipment lease					
purchase obligations	2009-2009	3.57% - 3.84%	<u>553,661</u>	<u> </u>	<u>553,661</u>
	Total		<u>\$ 30,603,661</u>	<u>\$ 960,361</u>	<u>\$ 31,564,022</u>

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

Year Ended June 30	Principal	Interest	Total
2010	\$ 3,940,280	\$ 1,326,626	\$ 5,266,906
2011	3,982,258	1,184,996	5,167,254
2012	2,526,079	1,016,951	3,543,030
2013	2,145,852	925,885	3,071,737
2014	2,227,435	850,077	3,077,512
2015-2019	7,606,757	3,126,604	10,733,361
2020-2024	4,330,000	1,535,624	5,865,624
2025-2029	<u>3,845,000</u>	<u>538,100</u>	<u>4,383,100</u>
Total	<u>\$ 30,603,661</u>	<u>\$ 10,504,863</u>	<u>\$ 41,108,524</u>

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, 2009 and 2008 was \$1,345,713 and \$1,024,476 respectively. In 2009, interest expense was not capitalized to capital projects. In 2008, interest expense on construction related debt of \$448,830, net of \$6,990 interest earned on invested funds, was capitalized to the related capital projects.

(6) Operating Leases

The University leases certain properties and equipment under operating lease agreements. Facilities and equipment under these agreements are not recorded on the statements of net

Wright State University
Notes to Financial Statements
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assets. Rent expenses for the year ended June 30, 2009 and 2008 were \$2,416,563 and \$1,833,475, respectively.

Future minimum payments for all material operating leases as of June 30, 2009, are as follows:

2010	\$ 2,496,147
2011	1,326,085
2012	1,177,882
2013	669,578
2014	242,929
2015-2017	<u>472,725</u>
Total minimum lease payments	<u>\$ 6,385,346</u>

(7) 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 the University 14 percent of the employees' covered compensation for both STRS and OPERS. The Ohio Revised Code provides statutory authority for both employee and employer contributions. The university's contributions to STRS were \$8,825,469, \$8,512,663, and \$8,865,540, and to OPERS were \$8,469,927, \$8,136,269, and \$7,435,839, for the years ended June 30, 2009, 2008, and 2007, respectively, equal to the required contributions for each year.

Certain full-time university faculty and 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 rate for plan participants is 10 percent of employees' covered compensation for employees who would otherwise participate in STRS or OPERS. The university's contributions to a participating faculty member's account and to STRS are 10.5 percent and 3.5 percent of a participant's compensation, respectively. The university's contributions to a participating staff member's account and to OPERS are 13.16 percent and .84 percent of a participant's compensation, respectively. Plan participants' contributions were \$4,152,517, \$3,834,684, and \$3,328,604, and the university's contributions to the plan providers

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amounted to \$4,803,045, \$4,500,074, and \$4,068,882 for the years ended June 30, 2009, 2008, and 2007, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$927,150, \$848,918, and \$763,789, respectively, for the years ended June 30, 2009, 2008, and 2007. The amount contributed to OPERS by the University on behalf of ARP participants was \$105,123 and \$79,667 for the years ended June 30, 2009 and 2008, respectively. There were no contributions to OPERS for the year ended June 30, 2007.

(8) Other Postemployment Benefits (OPEB)

STRS provides OPEB to all retirees and their dependents, while OPERS provides postretirement health care coverage to age and service retirees (and dependents) with 10 or more years of qualifying Ohio service credit. 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 percent (see note 7), while the OPERS rate was .98 percent of the total 14 percent.

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 \$3.7 billion at June 30, 2008. The number of benefit recipients eligible for OPEB was 126,506 for STRS at June 30, 2008. The amount contributed by the University to STRS to fund these benefits was \$630,391 for the year ended June 30, 2009.

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, 2007 is \$12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.8 billion and \$17.0 billion, respectively. The number of OPERS active contributing participants was 363,503 for the year ended December 31, 2008. For the year ended June 30, 2009 the University contributed \$592,895 to OPERS for OPEB funding.

(9) 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 \$85,000,000 at June 30, 2009. 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" and "capital grants and gifts" in the accompanying financial statements.

(10) 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 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 general obligation 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

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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.

(11) Commitments and Contingencies

At June 30, 2009, the University is committed under contractual obligations for:

Capital expenditures	\$ 13,259,938
Non-capital goods and services	<u>7,976,471</u>
Total contractual commitments	<u>\$ 21,236,409</u>

These commitments are being funded from the following sources:

State appropriations requested and approved	\$ 4,695,273
University funds	<u>16,541,136</u>
Total sources	<u>\$ 21,236,409</u>

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.

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

The University maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The University also carries professional coverage for employees and its Board of Trustees. Over the past three years, settlement amounts related to these insured risks have not exceeded the university's coverage amounts. There has been no significant change in coverage from last year.

The University became self-insured for all employee health care benefits on January 1, 2009 with Anthem as the third party administrator. Under the terms of the policy, the University is billed for

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actual claims on a weekly basis. As the University is liable for health insurance claims incurred through June 30, 2009 but not yet reported or submitted to the University for payment, an estimated liability of \$2,100,000 has been recognized and included in accrued liabilities at June 30, 2009.

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

(12) 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 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.

Gifts Receivable from Trusts Held by Others

Irrevocable trusts which will benefit the Foundation are recognized as gift revenue and as a receivable in an amount equal to the present value of the estimated future benefits to be received when trust assets are distributed. Adjustments to the receivable to reflect revaluation of the present value of the estimated future payments to the donor-designated beneficiaries and changes in actuarial assumptions during the term of the trust will be recognized as changes in the value of the asset.

Investment 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.

Gifts and Contributions

Gifts and contributions are recorded at their fair market value on the date of receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories.

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Notes to Financial Statements
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Contributed property is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, gifts of property are recorded as unrestricted support.

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.

(13) Business and Concentrations of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and investments. The Foundation deposits its cash in federally insured banks. These deposits are generally in excess of the Federal Deposit Insurance Corporation's insurance limit.

(14) Fair Value of Financial Instruments

Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157), defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market participants on the measurement date.

Statement 157 establishes a fair market value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

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Notes to Financial Statements
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	Fair Value Measurements at June 30, 2009 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
ASSETS				
Gifts receivable from trusts held by others	\$	\$	\$ 1,495,300	\$ 1,495,300
Investment in securities:				
Cash and equivalents	2,500,000			2,500,000
Bonds	2,482,579			2,482,579
Mutual funds-securities	22,669,330	30,588,949	117,468	53,375,747
Mutual funds-other financial instruments	589,907	60,741	(2,939)	647,709
Hedge funds			10,753,570	10,753,570
Private equity			173,716	173,716
Commercial loans			1,920,014	1,920,014
Total investment in securities	\$ <u>28,241,816</u>	\$ <u>30,649,690</u>	\$ <u>12,961,829</u>	\$ <u>71,853,335</u>
Other investments:				
Limited partnerships	\$	\$	\$ 864,649	\$ 864,649
Annuity assets				
Cash and equivalents	111	57,500		57,611
Mutual funds-securities	136,761	591,995		728,756
Total annuity assets	\$ <u>136,872</u>	\$ <u>649,495</u>	\$	\$ <u>786,367</u>
LIABILITIES				
Deposits held in custody for others:				
Mutual funds-securities	\$ (301,630)	\$ (610,075)	\$ (3,653)	\$ (915,358)
Mutual funds-other financial instruments	(7,544)	(593)	79	(8,058)
Hedge funds			(87,326)	(87,326)
Total deposits held in custody for others	\$ <u>(309,174)</u>	\$ <u>(610,668)</u>	\$ <u>(90,900)</u>	\$ <u>(1,010,742)</u>
Annuities payable:				
Cash and equivalents	\$ (86)	\$ (44,655)	\$	\$ (44,741)
Mutual funds-securities	(106,210)	(459,749)		(565,959)
Total annuities payable	\$ <u>(106,296)</u>	\$ <u>(504,404)</u>	\$	\$ <u>(610,700)</u>
Totals	\$ <u>27,963,218</u>	\$ <u>30,184,113</u>	\$ <u>15,230,878</u>	\$ <u>73,378,209</u>

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

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	Gifts Receivable from Trusts Held by Others	Mutual Funds	Hedge Funds
	<u> </u>	<u> </u>	<u> </u>
Beginning balance, June 30, 2008	\$ 1,958,100	\$ 266,313	\$ 9,626,036
Interest and dividends			
Realized gains/(losses) on sales		(11,701)	139,789
Unrealized gains/(losses) included in earnings		(67,146)	(2,030,368)
Net purchases/(sales)		(23,936)	2,930,787
Changes in estimates/assumptions	(462,800)	16	
Net transfers in/(out) of Level 3		(52,591)	
Ending balance, June 30, 2009	<u>\$ 1,495,300</u>	<u>\$ 110,955</u>	<u>\$ 10,666,244</u>

	Private Equity	Commercial Loans	Limited Partnerships
	<u> </u>	<u> </u>	<u> </u>
Beginning balance, June 30, 2008	\$	\$ 701,079	\$ 508,301
Interest and dividends			
Realized gains/(losses) on sales		127	
Unrealized gains/(losses) included in earnings		(712,846)	23,289
Net purchases/(sales)	173,716	281,224	333,059
Changes in estimates/assumptions			
Net transfers in/(out) of Level 3		1,650,430	
Ending balance, June 30, 2009	<u>\$ 173,716</u>	<u>\$ 1,920,014</u>	<u>\$ 864,649</u>

The fair value of gifts receivable from trusts held by others is based on a valuation model that calculates the present value of estimated residual trust value. The valuation model incorporates assumptions that market participants would use in estimating future investment earnings. Management determines the fair value based on best information available.

Investments in securities consist primarily of mutual fund shares managed by a professional investment management company utilizing the “manager of managers” model of portfolio administration. The investment manager is subject to the Foundation’s investment policy, approved by the board of trustees, which contains objectives, guidelines and restrictions designed to provide for preservation of capital with an emphasis on providing current income and achieving long-term growth of the funds without undue exposure to risk. Certain funds have been pooled for ease of management and to achieve greater diversification in investments.

The Foundation holds the manager of managers responsible for investment results. The manager is responsible for monitoring the funds’ sub-managers performance and style focus. Hiring and termination of sub-managers is undertaken by the manager. The Foundation monitors the financial reports of these mutual funds on a periodic basis and uses information provided therein to assess the fair value of the underlying securities. The fair values provided above reflect the Foundation’s proportionate share of the fund’s value as classified by the reporting entity.

Valuation of limited partnerships shares reported as “other investments” are derived from annual

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Notes to Financial Statements
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K-1 reporting by the fund custodian adjusted for capital contributions and withdrawals throughout the fiscal year. Although the fund custodians provide annual audited financial statements for each of the funds, the value of the underlying securities is difficult to ascertain as there is no active market associated with these ownership interests. Thus, the partnership interests are classified as Level 3.

Valuation of annuity assets (and related liabilities) is based on a "Default Level Matrix" developed by the custodian. Mutual funds and other instruments are classified based on analysis and review of SFAS No.157, together with input from securities pricing service companies, broker/dealers and investment managers regarding their pricing methodologies; discussions with clients and independent accounting firms regarding various market inputs used to determine fair value and participation in industry forums. Management believes that this custodian-developed matrix accurately interprets the provisions of SFAS No. 157 with respect to the level classification defined therein.

(15) Pledges Receivable

Pledges receivable at June 30, 2009 and 2008, by fund type, are as follows:

	2009			
	<u>Unrestricted</u>	Temporarily		<u>Totals</u>
		<u>Restricted</u>	Permanently <u>Restricted</u>	
Less than one year	\$ 45,613	\$ 2,045,044	\$ 1,062,132	\$ 3,152,789
One to five years	4,300	1,984,847	69,200	2,058,347
Six years or greater		<u>2,000,000</u>		<u>2,000,000</u>
Gross pledges receivable	49,913	6,029,891	1,131,332	7,211,136
Present value discount	(313)	(1,189,191)	(3,732)	(1,193,236)
Allowance for uncollectible pledges	<u>(400)</u>	<u>(31,600)</u>	<u>(4,600)</u>	<u>(36,600)</u>
Pledges receivable (net)	<u>\$ 49,200</u>	<u>\$ 4,809,100</u>	<u>\$ 1,123,000</u>	<u>\$ 5,981,300</u>

	2008			
	<u>Unrestricted</u>	Temporarily		<u>Totals</u>
		<u>Restricted</u>	Permanently <u>Restricted</u>	
Less than one year	\$ 60,600	\$ 2,486,961	\$ 1,064,657	\$ 3,612,218
One to five years	4,800	2,634,778	107,270	2,746,848
Six years or greater		<u>2,000,000</u>		<u>2,000,000</u>
Gross pledges receivable	65,400	7,121,739	1,171,927	8,359,066
Present value discount	(400)	(1,249,639)	(9,727)	(1,259,766)
Allowance for uncollectible pledges	<u>(400)</u>	<u>(41,100)</u>	<u>(5,900)</u>	<u>(47,400)</u>
Pledges receivable (net)	<u>\$ 64,600</u>	<u>\$ 5,831,000</u>	<u>\$ 1,156,300</u>	<u>\$ 7,051,900</u>

The fair value of pledges receivable was determined using discount rates applicable to the year in which the pledge was established. Rates ranged from 2.54% to 5.10%.

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Notes to Financial Statements
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(16) Investment in Securities

The cost and fair value of the Foundation's investments, at June 30, 2009 and 2008, are as follows:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Bonds	\$ 2,474,477	\$ 2,482,579	\$	\$
Mutual funds:				
Cash and equivalents	2,500,000	2,500,000		
Stocks	55,471,081	32,306,239	57,027,503	48,050,857
Bonds	22,916,884	21,717,218	30,603,366	31,460,669
Alternative assets	14,928,412	12,847,299	13,150,000	12,786,600
Totals	\$ 98,290,854	\$ 71,853,335	\$ 100,780,869	\$ 92,298,126

Net realized gains (losses) on sales of investments were (\$3,228,364) and \$10,026,863 for the years ended June 30, 2009 and 2008, respectively. Calculation of net realized gains on sales of investments is based on original cost.