



WRIGHT STATE
UNIVERSITY

CHANGING LIVES

ANNUAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2012

OFFICE OF THE
CONTROLLER

3640 COLONEL GLENN HWY.
DAYTON, OH 45435

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, 2012 with selected comparative information for the years ended June 30, 2011 and 2010. 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 issued \$55.2 million of General Receipts Bonds during 2012 to pay for the costs of construction and renovations of new and existing academic and administrative buildings, various infrastructure projects on campus, improving and adding outdoor student recreation space, and the replacement of the scoreboard at the university's Nutter Center arena. In addition, the University issued \$1.5 million to refund previously issued General Receipts bonds. This debt was issued in support of the priorities of the university's master capital plan with the projects scheduled to be completed during a several year period. Most of the debt will be paid over a twenty year amortization period at a net interest cost of approximately 4.1 percent. The refunded debt will save the University approximately \$55,000.
- With respect to the aforementioned projects, the University completed construction of the Rinzler Student Sports Complex and the Schuster Concert Hall during 2012. The Rinzler Complex is a multiuse recreational field with an adjacent varsity soccer field, team rooms, public restrooms, and concession facilities. The Schuster Concert Hall created one of the world's best acoustic spaces for a hall of its size. Many state of the art acoustic technologies were installed that enable the University to utilize these technologies for various community performing arts events. In addition to these projects the University performed a complete replacement of its main water lines on its Dayton campus.
- For the third consecutive year, Wright State was named to the President's Higher Education Community Service Honor Roll, the highest federal recognition a college or university can receive for its commitment to volunteering, service-learning, and civic engagement. This award is a collaborative effort of the Corporation for National and Community Service, Department of Education, the Department of Housing and Urban Development, Campus Compact, and the American Council on Education. *Washington Monthly* also ranks Wright State eighth in the country in participation in community service activities.
- Two different magazines have named Wright State a "Military Friendly School" in recognition of the support the University provides for student veterans and students in the military. Both *GI Jobs* magazine and *Military Advanced Education* magazine bestowed this honor for the third year in a row. *GI Jobs* honors the top 15 percent of more than 7,000 colleges, universities, and trade schools for doing the most to help America's veterans as students.
- *Forbes* magazine ranked Wright State as the leading four-year institution in the Dayton area in its "America's Best Colleges" rankings. This listing, compiled with the Center for College Affordability and Productivity, ranked the top 15 percent of more than 4,000 undergraduate institutions in the nation from the students' point of view. The rankings were based on a variety of factors, including student satisfaction with instruction, post-graduate employment success, the likelihood of graduating within four years and the average amount of student loan debt. In addition, College Success for Students with Physical Disabilities lists Wright State as one of only five schools cited as going above and beyond the rest in making independent living possible, offering the most supportive environments for students with serious physical disabilities to live on campus.

- For the third year in a row the University raised its undergraduate tuition rates by 3.5%. Graduate tuition increased by 4.5% while the Boonshoft School of Medicine (BSOM) and School of Professional Psychology had a tuition increase of 5%. These increases are similar to the 2011 tuition increases and continue to be necessary as a result of the elimination of federal appropriations (federal stimulus monies) utilized in 2010 and 2011 as a replacement for state appropriations from the State of Ohio. Even with these tuition increases, Wright State continues to maintain the fourth lowest in-state undergraduate tuition rate among Ohio's thirteen four-year public institutions.
- Total state appropriations fell \$.4 million in 2012 from 2011 after stripping out the effect of OhioLINK (a statewide library initiative for which the University serves as fiscal agent). This follows 2011 where state appropriations fell \$1.0 million from 2010 after pulling out the effect of OhioLINK. More importantly, the University lost the federal stimulus funds the State was passing through to the University in 2011 and 2010 in the amounts of \$13.2 million and \$13.0 million, respectively.
- Net assets decreased \$9.0 million in 2012, primarily in unrestricted net assets. The unrestricted decrease was the result of the weak investment market performance that produced a \$.2 million investment loss compared to the budget of \$7.4 million. Tuition and fee revenue was also slightly lower than expectations. Net assets increased \$40.0 million in 2011, again primarily in unrestricted net assets. This increase was driven by record investment earnings for the University as well as positive variances in student tuition and fee revenue as a result of better than planned enrollment. In addition, spending reductions in anticipation of the 2012 elimination of federal appropriations also added to the 2011 positive margin.
- Fall 2011 headcount was 19,721, slightly lower than the record enrollment of 19,793 from the fall of 2010. This basically flat enrollment from 2011 to 2012 was a stabilization from 2011 and 2010 which saw an increase of 5.4% and 6.4%, respectively. This added an additional challenge to the University in a budget year where it also lost \$13.2 million in federal appropriations.
- The University completed its three-year conversion efforts in transitioning the university's academic calendar from the quarter system to the semester system effective fall of 2012. This transition better aligns Wright State's calendar with other universities' to better facilitate collaborative academic programs, student transfer and articulation. This transition contributed to the record number of graduates the University had in June 2012, increasing from 2,481 in 2011 to 2,916 in 2012.

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 understand 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.

At a number of points in this narrative, we discuss revenues from state appropriations. In general, these references should be read to also include federal appropriations, which are the federal stimulus funds the

State used in 2010 and 2011 to replace lost state tax revenues. In contrast, federal grants and contracts refer to more traditional forms of federal funding that are quite distinct from federal stimulus funds.

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:

	2012	2011	2010
	(All dollar amounts in thousands)		
Current assets	\$ 87,757	\$ 86,001	\$ 84,313
Noncurrent assets:			
Capital assets, net	309,490	304,459	303,714
Other	179,152	140,790	108,495
Total assets	<u>576,399</u>	<u>531,250</u>	<u>496,522</u>
Current liabilities	83,975	78,999	82,126
Noncurrent liabilities	89,874	40,717	42,890
Total liabilities	<u>173,849</u>	<u>119,716</u>	<u>125,016</u>
Net assets:			
Invested in capital assets, net of related debt	270,770	272,468	269,596
Restricted	19,730	19,232	19,044
Unrestricted	112,050	119,834	82,866
Total net assets	<u>\$ 402,550</u>	<u>\$ 411,534</u>	<u>\$ 371,506</u>

The university's net assets decreased \$9.0 million in 2012, largely due to a downturn in investment earnings. Investment returns in 2012 were non-existent and created an unanticipated income shortfall of \$7.6 million, primarily causing the reduction in unrestricted net assets. This is in stark contrast to 2011 when investment earnings were at a record \$20.8 million. The University lost over \$13 million in federal stimulus funds from 2011 but had carefully planned for that reduction by strategically reducing budgeted expenditures. This avoided an even further deficit. There were little changes in restricted net assets and capital assets, net of depreciation and related debt. The University did complete several notable projects, including the Rinzler Student Sports Complex and Schuster Concert Hall. In addition, all main water lines were replaced on the Dayton campus. There were other typical routine additions and disposals, most notably in capital equipment and library books and publications, as well as annual depreciation expense of \$19.7 million. The \$40.0 million increase in net assets in 2011 was the result of several items. Investment returns were \$20.8 million, tuition revenues were almost \$8.0 million above target for the year, and the spending cuts in anticipation of the 2012 elimination of federal appropriations began to take place in 2011.

Total assets increased \$45.1 million in 2012 over 2011. *Current assets*, comprised primarily of cash and operating investments, student and sponsor receivables, and prepaid expenses, increased by only \$1.8 million in 2012 from 2011. This increase is a net result of a number of items. There was a decrease in unrestricted cash and investments of \$8.5 million and an increase in restricted cash and investments (composed of unspent bond proceeds) of \$6.9 million. The decrease in the cash and investments reflects the utilization of those funds for operating needs in 2012. In addition, accounts receivable increased \$3.1 million from \$19.3 million in 2011 to \$22.4 million in 2012 primarily as a result of an increase in both

student and sponsored program receivables. Deferred charges remained relatively flat at \$4.8 million in both 2012 and 2011. These assets represent financial aid disbursed in the current year which is to be applied to the upcoming year. Prepaid expenses comprise another large share of current assets at \$13.8 million in 2012 and \$13.4 million in 2011. These assets are primarily composed of license agreements for the OhioLINK program for which the University is the fiscal agent.

Other noncurrent assets increased \$38.4 million from \$140.8 million in 2011 to \$179.2 million in 2012. These assets are comprised of long-term investments, long-term student loans receivable, and long-term prepaid expenses and deferred charges. Long-term unrestricted investments comprise the dominant share of the balance in both 2012 and 2011 at \$128.6 million and \$128.1 million, respectively, only an increase of \$.5 million. However, there was an addition of \$37.9 million in restricted investments comprised of unspent bond proceeds that will be spent over the next two years on various capital projects. Loans receivable comprise the balance of the noncurrent assets at \$12.1 million and \$12.4 million in 2012 and 2011, respectively.

Capital assets, net of depreciation increased from \$304.5 million in 2011 to \$309.5 million in 2012 resulting in an increase of \$5.0 million. Major projects performed and/or completed in 2012 include the Rinzler Student Sports Complex, the Schuster Concert Hall, and the replacement of all Dayton campus main water lines. The University also performed annual routine capital activities such as repair and improvement of parking lots, maintenance of buildings, and acquisition and disposal of various items of equipment. There was also the donation of \$5.8 million of software to be utilized by students. Annual depreciation expense in 2012 was \$19.7 million, helping to minimize the increase in net capital assets.

Total assets increased \$34.7 million from 2010 to 2011 from \$496.5 million to \$531.2 million. This increase was entirely attributable to an increase in long-term investments. They increased \$35.1 million from \$93.0 million in 2010 to \$128.1 million in 2011. This growth in investments was due to the extremely strong investment market in fiscal 2011.

Total assets of the Wright State University Foundation decreased from \$111.2 million at June 30, 2011 to \$110.3 million at June 30, 2012, a decrease of \$.9 million, all in gifts and pledges receivable. Those balances were \$5.8 million and \$6.7 million at June 30, 2012 and 2011, respectively. Cash and cash equivalents and long-term investments comprise \$103.8 and \$103.7 million of the total assets balances at June 30, 2012 and 2011, respectively.

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 \$5.0 million from \$79.0 million at June 30, 2011 to \$84.0 million at June 30, 2012. There are a number changes in balances that comprise the overall change in current liabilities. Accounts payable increased \$4.0 million from \$9.1 million in 2011 to \$13.1 million in 2012 primarily due to some large invoices received in June of 2012 for the OhioLINK program and increases in outstanding contractor payables for some of the university's on-going capital projects. Accrued liabilities decreased \$1.9 million primarily as a result of a reduction of \$2.3 million of liabilities for the voluntary separation incentive plan the University offered in 2010 to reduce expenses through strategic management of staff vacancies. The balance of those liabilities is now \$.7 million and will be fully liquidated in 2013. Deferred revenue increased \$.4 million from \$38.5 million in 2011 to \$38.9 million in 2012. The two primary components of deferred revenue are income received in advance of expenditures from project sponsors on contracts and grants and summer quarter tuition and fees related to 2013 received before June 30, 2012. The \$.4 million increase resulted from an increase of \$1.3 million in the restricted funds, primarily for OhioLINK income, partially offset by a decrease of \$.9 million in the unrestricted fund, almost all as a result of an increase in deferred student fees. Current portion of long-term liabilities also increased \$2.7 million from \$8.7 million in 2011 to \$11.4 million in 2012. This is the result of an increase in the current portion of the compensated absence liability of \$1.0 million and an increase of \$1.7 million from the new bonds and capital lease issued in 2012.

Current liabilities decreased \$3.1 million from \$82.1 million at June 30, 2010 to \$79.0 million at June 30, 2011. Accounts payable and accrued liabilities decreased a combined \$2.7 million due to some one-time trade payables that existed at June 30, 2010 that did not recur in 2011 as well as a further amortization of

the separation incentive plan accrual of \$2.3 million in 2011. In addition, deferred revenues increased \$2.1 million attributable to OhioLINK offset by a \$2.5 million decrease in the current portion of long-term liabilities as a result of the series 2003 university bonds being paid off in 2011, thus reducing future year debt service.

Noncurrent liabilities increased \$49.2 million from \$40.7 million at June 30, 2011 to \$89.9 million at June 30, 2012. This increase is the result of the University issuing \$56.7 million of new debt in 2012 less another year of debt service for all outstanding debt. Noncurrent liabilities decreased \$2.2 million from \$42.9 million at June 30, 2010 to \$40.7 million at June 30, 2011. This decrease is the result of the University making principal payments of \$5.2 million against its debt, having smaller annual debt service in future years effectively increasing the long-term debt relative to 2010, and increasing its long-term compensated absences liability by \$1.5 million.

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:

	2012	2011	2010
	(All dollar amounts in thousands)		
Invested in capital assets, net of related debt	\$ 270,770	\$ 272,468	\$ 269,596
Restricted expendable	19,730	19,232	19,044
Unrestricted:			
Designated	114,789	118,935	96,241
Undesignated	<u>(2,739)</u>	<u>899</u>	<u>(13,375)</u>
Total net assets	<u>\$ 402,550</u>	<u>\$ 411,534</u>	<u>\$ 371,506</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 2012 the University replaced water mains on the Dayton campus, renovated and created the Schuster Concert Hall and provided additional athletic center facilities by building the Rinzler Student Sports Complex. In addition, the University received donated equipment and software of approximately \$5.8 million during 2012. During 2011 the University substantially completed the energy conservation projects begun in 2010, spending an additional \$1.2 million. In addition, the University received donated equipment and software of approximately \$6.0 million during 2011. The University also continued to provide for annual maintenance and upkeep of its existing facilities.

Restricted expendable represents funds that are externally restricted to specific purposes, such as student loans or sponsored projects. \$18.9 million at both June 30, 2012 and 2011 of the restricted expendable fund balances 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. Unrestricted net assets decreased \$7.7 million in 2012, from \$119.8 million in 2011 to \$112.1 million in 2012. The unrestricted decrease occurred primarily as actual revenues were less than originally budgeted by \$7.9 million. Investment earnings were \$7.6 million less than budgeted and was the primary reason for the revenue shortfall. This decrease in unrestricted net assets took the university's undesignated

unrestricted net assets from a surplus position of \$.9 million at June 30, 2011 to a deficit balance of \$2.7 million at June 30, 2012. Given the challenging economic climate that currently exists, it will be more and more difficult to restore and grow these undesignated unrestricted fund balances. However, management will continue to strategically create priorities and a corresponding financial plan that should continue to provide financial stability and potential future growth.

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:

	2012	2011	2010
	(All dollar amounts in thousands)		
Operating revenues:			
Student tuition & fees - net	\$ 141,938	\$ 134,010	\$ 124,575
Grants and contracts	94,837	97,514	89,882
Sales and services	7,433	6,911	8,298
Auxiliary enterprises	16,326	17,056	15,476
Other	2,619	3,478	2,846
Total	263,153	258,969	241,077
Operating expenses	402,254	392,113	386,514
Operating loss	(139,101)	(133,144)	(145,437)
Nonoperating revenues (expenses):			
Federal appropriations		13,228	12,988
State appropriations	89,649	88,042	89,045
Federal grants	27,679	29,110	22,581
State grants	3,081	3,516	3,254
Gifts	6,257	6,716	8,398
Investment (loss) income	(224)	20,836	9,988
Interest expense	(2,620)	(1,453)	(1,443)
Other income (expense)	(2,588)	(82)	(2,501)
Capital appropriations	1,241	5,692	9,648
Capital grants and gifts	7,642	7,567	4,957
Total	130,117	173,172	156,915
(Decrease) increase in net assets	(8,984)	40,028	11,478
Net assets - beginning of year	411,534	371,506	360,028
Net assets - end of year	\$ 402,550	\$ 411,534	\$ 371,506

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				
	2012	2011	Difference	Percent Increase (Decrease)
Revenues:				
Grants and contracts	\$ 31,178,164	\$ 31,888,900	\$ (710,736)	(2.2)%
State appropriations	<u>6,510,387</u>	<u>4,543,090</u>	<u>1,967,297</u>	<u>43.3%</u>
Total revenues	<u>\$ 37,688,551</u>	<u>\$ 36,431,990</u>	<u>\$ 1,256,561</u>	<u>3.4%</u>
Expenses:				
Total OhioLINK	<u>\$ 37,688,551</u>	<u>\$ 36,431,990</u>	<u>\$ 1,256,561</u>	<u>3.4%</u>

The University continues to rely upon state appropriations and student tuition and fees as its primary revenue sources for its core programs and university operations. In addition to these two revenue sources, which amounted to over 58 percent of the university's total 2012 revenues, another 32 percent of 2012 revenues were in the form of grants and contracts, a restricted revenue source received from external sponsors of specific projects. Although the accounting standards classify state appropriations as a nonoperating revenue source in the financial statements, the University continues to manage state funding as an operating revenue item, as it relies upon state funding as a significant (even if declining) funding source for ongoing operations. After the recent few years of rising enrollments, Wright State enrollments remained steady in 2012 compared to 2011. This, in conjunction with modest increases in tuition rates, resulted in an increase in net tuition revenue of approximately 5.9 percent. However, the State of Ohio's funding, which no longer includes federal stimulus funds passed on by the State, actually decreased, net of OhioLINK. So the trend of increasing tuition and decreasing state appropriations as a percent of total revenues that has been on-going for at least the last three decades continued into 2012. Students and their families continue to pay an ever increasing share of the cost of education as the State has been struggling to address their own financial challenges. Unfortunately this has resulted in fewer dollars being allocated to higher education by the State. Now that the two years of federal stimulus subsidies are gone, the state funding base has permanently shrunk to levels not seen since the 1990's. The University responded in 2012 by reducing its expenditure base in order to maintain fiscal stability. While it continues to look for more opportunities for efficiency gains and strategic allocations of resources in order to optimize operations, this alone will not address the funding challenges of the University. The University is in the process of implementing a new resource allocation model that focuses on strategic incentives for revenue growth as opposed to simple expense reductions. In addition, added priority has been given to expanding the university's applied research portfolio, partnering with our neighboring Wright Patterson Air Force Base as well as regional commercial enterprises to help drive and create economic development and jobs in the area. These focuses have the potential to enhance revenues for the University that should help offset some of the decline in our more traditional revenue sources such as state appropriations. Trends have shown that the amount of state appropriations allocated to Wright State University and higher education in general have not been keeping pace with enrollment growth and have in fact been shrinking, in turn requiring the University to raise tuition at a magnitude greater than desired in order to fund the increasing costs of serving the students. While the University is hopeful that more resources will be invested in higher education as the economy recovers, this trend is not likely to change in the near future.

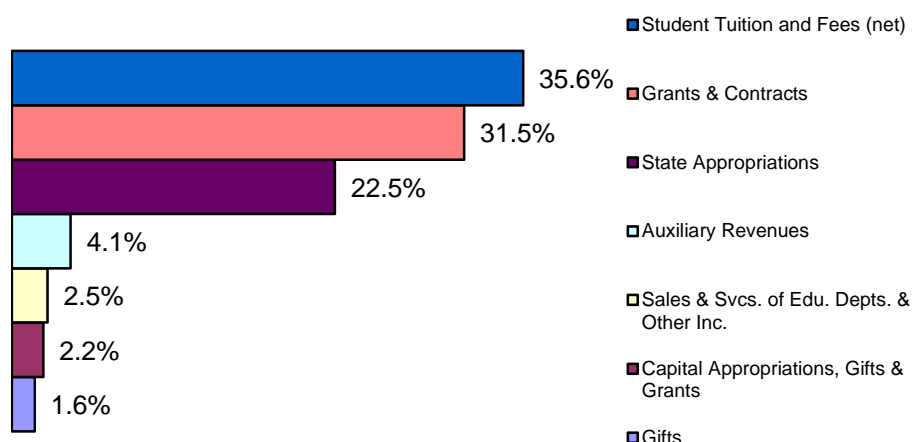
The table below demonstrates just how much state budgets over the past three decades have forced universities to shift the burden for funding the cost of higher education to students and their families.

State Appropriations per Dollar of Gross Tuition

<u>Fiscal Year</u>	<u>Gross Tuition</u>	<u>State Appropriations net of OhioLINK</u>	<u>Net State Appropriations per Dollar of Gross Tuition</u>
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
2005	121,717,222	84,724,080	0.70
2010	161,383,354	97,498,261	0.60
2011	174,830,992	96,735,697	0.55
2012	180,670,354	83,138,572	0.46

The table above shows that even in 2010 and 2011 when the level of state appropriations had increased, the proportion of revenues provided by the State still continued to decline. State funding has not kept up with the growth of the University in size or complexity. This has necessitated placing a greater share of the total costs of education on the students themselves. Therefore, the University continues to supplement its funding with other types of revenue sources. The most significant other source is sponsored programs, whose volume continues to grow annually. There continues to be a strong emphasis on fundraising. Even though the University has raised its tuition in almost all years when allowed by state law, the University continues to maintain its position in the State with a lower than average level of tuition and fees relative to other Ohio four-year public institutions. Wright State still ranks 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, 2012.



State and federal appropriations decreased from \$101.3 million in 2011 to \$89.6 million in 2012, a decrease of \$11.7 million. OhioLINK appropriations increased from \$4.5 million in 2011 to \$6.5 million in 2012. When accounting for the change in the OhioLINK funding, state appropriations actually fell \$13.7

million in 2012. The federal stimulus monies (federal appropriations) the State was using in 2011 and 2010 expired and were not available in 2012. This accounts for \$13.2 million of the decrease. After that, state appropriations were almost flat. With the elimination of the federal supplement from 2010 and 2011, the University expects the current year level of subsidy to be a new norm. 2011 saw a \$.7 million decrease in state and federal appropriations from \$102.0 million in 2010 to \$101.3 million in 2011.

Net student tuition and fees were \$141.9 million, \$134.0 million, and \$124.6 million in 2012, 2011, and 2010, respectively which provided an increase of 5.9% from 2011 to 2012 and 7.5% from 2010 to 2011. In 2012, tuition increased 3.5% at the undergraduate and 4.5% at the graduate level and 5.0% for Boonshoft School of Medicine, School of Professional Psychology, and the Doctor of Nursing Practice. Due to the mix of students and student credit hours, the gross tuition increase was only 3.3% before applying the scholarship allowance (financial aid applied against a student's tuition bill). Tuition increases were similar in 2011 as they were in 2012, however enrollments increased 4.5% in 2011 over 2010 resulting in a larger increase in tuition dollars.

Grants and contracts were \$125.6 million in 2012, decreasing \$4.5 million from the 2011 level of \$130.1 million. The 2010 level was \$115.7 million. The \$4.5 million decrease is a combination of items. Externally awarded financial aid such as PELL, Ohio College Opportunity grant, and other federal and state awards fell over \$5.0 million. This was partially offset by increases in other sponsored awards, primarily in nongovernmental grants and contracts. The 2011 awards were \$14.4 million higher than in 2010. This increase was the result of large increases in federal financial aid as well as increases in nongovernmental grants and contracts.

Auxiliary revenues were \$16.3 million, \$17.1 million, and \$15.5 million for the years ended June 30, 2012, 2011, and 2010, respectively. Auxiliary enterprises are comprised of residence services, bookstores, food services, vending, parking and transportation, intercollegiate athletics, the Student Union, and the Nutter Center. The \$.8 million decrease in revenues in 2012 was largely a result of the Celina Campus Bookstore changing operations from university operated to being contracted to a third party, which resulted in a decrease of almost \$.6 million in gross revenues as WSU began receiving commission income in lieu of direct sales revenues. The \$1.6 million increase in revenues in 2011 was a combination of factors. The Nutter Center's revenues increased \$.5 million due to the success achieved in obtaining a larger number of high interest events. Also, food service operations realized an increase of \$.4 million from serving a greater number of students, increasing the board plan rates, and seeing sales increase through the use of credit cards. Parking Services' revenues also increased \$.3 million from increased enrollment, adding a new parking lot, and parking rates rising. Lastly, Intercollegiate Athletics revenues also increased \$.3 million as income generated through the Horizon League Conference increased.

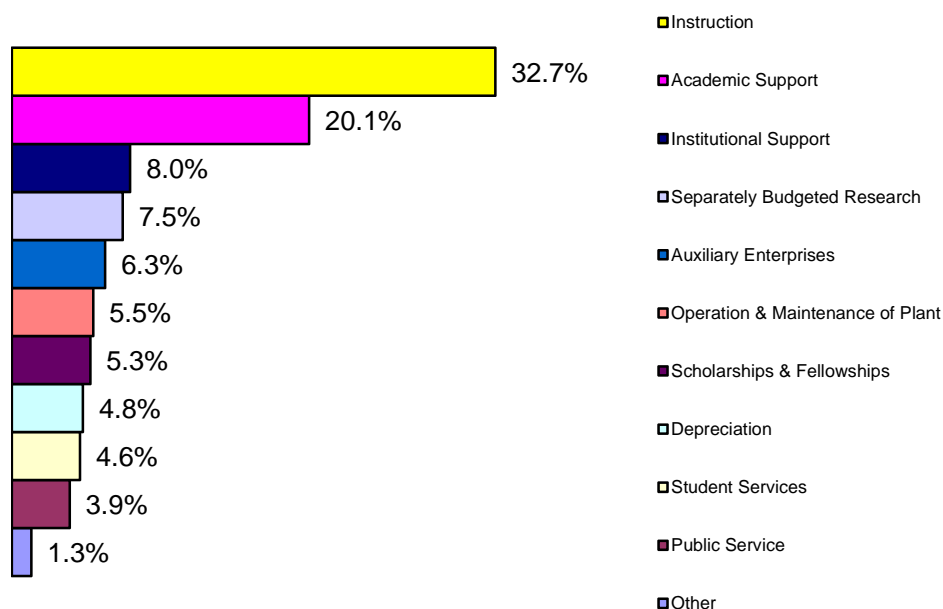
Sales and services, which are primarily revenues generated from specific departmental sales activities to organizations external to the University, were \$7.4 million, \$6.9 million, and \$8.3 million for the years ended June 30, 2012, 2011 and 2010, respectively. The largest amounts of revenue are generated from the Boonshoft School of Medicine in the form of clinical income and other services as well as computing and telecommunications revenues. The \$.5 million increase in 2012 occurred primarily in the Boonshoft School of Medicine with their clinical income and Printing and Communications with increased activity. The \$1.4 million decrease in 2011 is primarily due to the closing of the university pharmacy in 2010.

Investment income was a loss of \$.2 million, and income of \$20.8 million and \$10.0 million in 2012, 2011 and 2010, respectively. The 2012 loss was disappointing but paralleled the overall market. It was a fairly flat year with respect to investment returns. Investment income was almost \$8.0 million less than planned, and was the primary contribution to the decrease in unrestricted net assets in 2012. Although the University experienced this loss, it did so by operating within the framework of its investment policy which is structured to maximize returns over a longer time horizon while maintaining liquidity and reasonable safety of the assets. It does so by recognizing and investing in a very diverse array of investment instruments tied to various durations, market sectors, risk tolerances, and liquidities. Management realizes that there will be down years such as 2012 that will be bolstered by up years, but over the long term returns should be such that not only will there be current operating income, but the investment portfolio should grow over time. The returns of 2011 demonstrate this strategy. The \$20.8 million investment return was the largest in the university's history. It exceeded the amount budgeted by over

\$15.0 million. Given the current economic environment, the University expects that returns have the possibility of fluctuating widely from year to year.

Capital Appropriations, Gifts and Grants were \$8.9 million in 2012, a decrease of \$4.4 million from the \$13.3 million realized in 2011. Capital appropriations from the State of Ohio decreased \$4.5 million in 2012 due to the fact that during the most recent biennial budget period ended June 30, 2012 there was no capital bill in the State of Ohio and therefore no new capital appropriations. Both the 2012 and 2011 capital appropriations were largely carryover amounts from the prior capital bill. Most of those carryover amounts were expended in 2011 as opposed to 2012. Capital grants and gifts remained at the same level in 2012 as it did in 2011. Major gifts in fiscal 2012 included a \$5.8 million gift of software for use by students as well as gifts for projects including the Schuster Concert Hall renovation. There was also capital equipment acquired through on-going routine sponsored agreements. The 2011 amounts include \$4.5 million for lab facilities and basic renovations, another \$5.0 million gift of software for academic use, and further capital equipment for sponsored agreements.

The following is a graphic illustration of expenses by function for the year ended June 30, 2012.



Total operating expenses were \$402.3 million in 2012 as compared to \$392.1 million and \$386.5 million in 2011 and 2010, respectively. The \$10.2 million increase in 2012 represents only a 2.6% increase. Salaries and benefits increased \$6.6 million from 2011 to 2012 which represents a 2.8% increase. The majority of that percentage increase was in benefit costs at 4.5%. The University worked hard to hold these personnel costs down as there was an anticipation of the elimination of the federal stimulus monies (passed through the State in the form of appropriations) in 2012. As a result, the University began planning for this event early in 2012. We have been strategic in the filling of vacant positions as they become open. Many of these positions remain open from the vacancies created from the early separation incentive program implemented by the University in 2010. A number of those positions were also filled at lower rates than the predecessor was being paid. Adding to the lower increase was the fact that the bargaining unit faculty did not receive a compensation increase for 2012 and all non-bargaining unit employees only received a 2% increase. The University also benefited from lower health care claims costs than anticipated. Particularly in recent years we have been critically reviewing and implementing various alternatives to health care plan designs, premium structures, and other plan features to help minimize costs for both the University and the employees. The remaining increases in expenses of \$3.6 million in 2012 represent only a 2.3% increase in the remaining operating expenses. Again, the University

was very focused on keeping down expenses knowing that \$13.2 million of federal stimulus funds were being eliminated. The 2011 increase of only \$5.6 million has a similar theme. Salaries and benefits drove that entire increase with somewhat higher annual compensation increases for faculty, yet still the overall increases in personnel costs were small. Total operating expenses in 2011 only increased 1.5%.

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, 2012. A summary of the Statements of Cash Flows is as follows:

	2012	2011	2010
	(All dollar amounts in thousands)		
Cash provided (used) by:			
Operating activities	\$ (121,065)	\$ (107,871)	\$ (119,292)
Noncapital financing activities	127,213	140,040	135,622
Capital and related financing activities	30,981	(15,473)	(7,263)
Investing activities	(44,763)	(22,309)	(12,765)
Net (decrease) in cash and cash equivalents	(7,634)	(5,613)	(3,698)
Cash and cash equivalents-beginning of year	27,245	32,858	36,556
Cash and cash equivalents-end of year	<u>\$ 19,611</u>	<u>\$ 27,245</u>	<u>\$ 32,858</u>

Total cash and cash equivalents decreased \$7.6 million from 2011 to 2012. Cash flows from operating activities decreased \$13.2 million from 2011 due to routine cash expenditures for operating expenditures. Payments to employees for salaries and benefits and payments for suppliers increased. This amounted to \$12.8 million. Cash flows from grants and contracts were down in 2012 as well, but this was offset by the increases in student tuition and fees. Cash from noncapital financing activities also decreased \$12.8 million as a result of the loss of \$13.2 million in federal appropriations in 2012 as the federal stimulus monies were discontinued. Cash from capital and related financing activities increased \$46.5 million from 2011 to 2012 as there were \$59.8 million of debt proceeds in 2012 for a new general receipts bond issuance which was partially offset by an increase in debt service of \$4.6 million to service the capital debt and leases along with a decrease of \$5.2 million in capital appropriations from the State of Ohio. In addition, there was an increase of \$3.8 million for the purchase of capital assets. The net cash used by investing activities of \$44.8 million in 2012 is the net result of all investment activities: purchases, sales, and interest earnings. This compares to \$22.3 million net cash used in 2011. The net usage of cash increased in 2012 by \$22.5 million primarily because of the investment of bond funds from the 2012 general receipts bond issuance into a bond trust fund. There was also an increased level of purchases and sales of investments during 2012. The decrease in cash and cash equivalents of \$5.6 million from 2010 to 2011 is a combination of fewer investment sales in 2011 than 2010 and less capital proceeds in 2011 as 2010 had a debt issuance offset by an increase in contract and grant income as well as tuition and fees.

Capital Assets and Debt

Capital Assets

The University had approximately \$309.5 million invested in capital assets, net of accumulated depreciation of \$244.4 million at June 30, 2012. Capital assets were \$304.5 million, net of accumulated depreciation of \$235.9 million at June 30, 2011. Depreciation expense for the years ended June 30, 2012 and 2011 was \$19.7 million and \$20.1 million, respectively. A summary of net capital assets for the year ended June 30 is as follows:

	2012	2011	2010
	(All dollar amounts in thousands)		
Land, land improvements and infrastructure	\$ 32,508	\$ 27,048	\$ 25,379
Buildings	227,314	227,149	232,466
Machinery and equipment	29,156	29,168	26,956
Library books and publications	17,597	18,083	18,399
Construction in progress	2,915	3,011	514
Total capital assets - net	<u>\$ 309,490</u>	<u>\$ 304,459</u>	<u>\$ 303,714</u>

Land, land improvements, and infrastructure increased \$5.5 million as a result of a few projects. One project was performed to replace all of the Dayton campus' main water lines. Over the last several years, the lines had developed random leaks from the age of the pipes. Therefore, the University determined it best to replace all of the lines rather than continually fix them. This amounted to approximately \$2.6 million. There was another \$2.5 million spent for a portion of the Rinzler Student Sports Complex and related Raider Road extension. Lastly, the University purchased a large portion of property in the middle of its Dayton campus belonging to the Archdiocese of Cincinnati. Future plans are to build a student commons building for residential students to be used as a gathering space, activity center, and with some food options. This acquisition had a modest cost of \$.4 million. As noted earlier, another major improvement in 2012 was the renovation and creation of the Schuster Concert Hall with a cost of just over \$4.0 million. There was also a \$5.8 million donation of software for student use in the classroom. Capital activity in 2011 consisted primarily of routine improvements to facilities, additional capital donations of software, completion of energy conservation projects, and the addition of 400 new student parking spaces.

Debt

In November 2011, the University issued \$55.2 million General Receipts Series 2011A Bonds to fund construction of a new classroom building, replacement of main water lines, renovation of the Student Union, renovation of the Schuster Concert Hall, improvement and addition of the Rinzler Student Sports Complex, construction of a new building for a neuroscience and engineering collaboration, expansion of the Creative Arts Center, replacement of the Nutter Center scoreboard, construction of parking lots and acquisition of a parcel of land adjacent to main campus. Series 2011 B bonds, totaling \$1.5 million, were also issued as an advance refunding of \$1.4 million outstanding Series 2003 General Receipts serial and term bonds. The bonds were sold at a premium of \$3.4 million for a total of issue of \$60.0 million. The average coupon rate of the Series A bonds is 4.82%, but the effective interest rate is only 4.13%. The University received a bond rating for this issue from Moody's Investors Service of A1.

Outstanding debt was \$84.4 million, \$32.7 million, and \$37.9 million at June 30, 2012, 2011, and 2010, respectively. The 2012 balance of \$84.4 million includes \$84.1 million of outstanding bonds and equipment leases of \$.3 million. The 2011 balance of \$32.7 million includes \$32.5 million of outstanding bonds and equipment leases of \$.2 million.

Concluding Thoughts

Wright State continues to find itself in challenging financial times. State support has continued to decline and the University seems to be in a continual routine of cutting expenses and looking for new revenue sources. The University cut over \$13.0 million out of the budget in 2012 after cutting like amounts in prior years. With the University completing a three year transition from a quarter calendar system to a semester calendar system beginning in the fall of 2012, this will bring about new challenges, some of which will be financial. It is anticipated that there will be an initial enrollment decline given the desire of students who are close to graduating to complete their studies prior to the transition. This is evidenced by Wright State seeing its largest graduating class in June 2012 of over 2,900 students. While that is rewarding, the University is aware that the economic challenges that accompany this transition will still be there and the economic challenges of the State have not gone away. There is room for optimism, though.

The University, through a new collaborative process, engaged with other state universities to propose and be awarded over \$12.0 million in new capital appropriations for the two year biennium of 2013 and 2014. This comes on the heel of a biennium that had no state capital bill at all. The University believes its success is due to its alignment of its strategic goals with that of the State. Engaging in endeavors that expand knowledge through collaboration with external third parties have the potential to create jobs, and have the capacity to spur on the economy are areas of focus for Wright State. This collaborative process of proposing for state capital dollars is also lending itself for use in determining the priorities to be used for the allocation of state operating appropriations. There is an emphasis by the State on degree completion and graduation of students as quickly as possible which ultimately all universities would like to achieve. However it adds an additional challenge for an open access institution such as Wright State that wants to be accessible for all types of students, not just traditional straight from high school graduates. So balancing and defining the priorities that determine the level of state funding will be a challenge. The State, though, is gradually recovering from the recession. State revenues are being realized at or above budget expectations. Education is seen as a priority of the State as well. However, it is probably not reasonable to assume that overall funding of higher education from the State is likely to increase by any significant magnitude in the near to moderate term. Therefore, it appears that student tuition and fees will continue to increase as a total share of revenues.

One strategy the University is employing is a migration to a new budgeting model that is more incentive and strategic based. We believe this model will portray a more accurate and transparent picture of the financial sources and uses of an academic unit and allow them to strategically identify and develop new revenue sources through program additions and enhancements. In addition, it will help identify activities and programs within their colleges that are not adding either academic and/or financial value and hold these academic units more responsible and accountable for the budgetary outcomes of their units. More simply, it allows them and encourages them to be more entrepreneurial.

The challenges that have been in front of us for a number of years now haven't gone away. Continually rising costs such as health care and other employee benefits, certain energy costs, and technology will demand that we continue to look for ways to control and reduce costs. Performing strategic sourcing of contracts, critically reviewing the structure of employee benefit programs, performing energy conservation projects, and managing our human resources are a standard part of doing business nowadays. Recent pension reform legislation is going to make it likely that we will have an exodus of a subset of the workforce over the next several years and with it a certain amount of institutional memory. This will simply add to the challenge. However, it will also offer opportunities for improvements. It is these types of opportunities that the University plans to maximize. We must if we are to continue to meet the needs of our students and the communities within which we are a part.

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, 2012 and 2011, which collectively comprise the University's 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 the University as of June 30, 2012 and 2011, and the respective changes in its financial position and its cash flows where applicable for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2012, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 2-14 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The script is cursive and fluid, with the letters "C", "H", and "L" being particularly prominent.

Crowe Horwath LLP

Columbus, Ohio
October 12, 2012

WRIGHT STATE UNIVERSITY
Statements of Net Assets
June 30, 2012 and 2011

ASSETS	2012		2011	
	University	Foundation	University	Foundation
Current assets:				
Cash and cash equivalents	\$ 18,371,057	\$ 1,654,245	\$ 26,740,295	\$ 5,355,232
Restricted cash and cash equivalents	1,239,968		505,035	
Short-term investments	15,904,457		16,009,887	
Restricted short-term investments	6,133,053			
Accounts receivable (net of allowance for doubtful accounts of \$1,555,000 in 2012 and \$1,485,000 in 2011 - Note 3)	22,386,676	418,273	19,250,549	550,558
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$1,400 in 2012 and \$1,000 in 2011)		1,801,293		1,904,560
Loans receivable (net of allowance for doubtful loans of \$2,785,000 in 2012 and \$2,512,000 in 2011)	4,646,030		4,843,334	
Inventories	438,846		412,958	
Prepaid expenses	13,834,860		13,411,959	
Deferred charges	4,802,367		4,826,856	
Total current assets	87,757,314	3,873,811	86,000,873	7,810,350
Noncurrent assets:				
Restricted investments	37,906,009			
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$34,600 in 2012 and \$23,500 in 2011)		4,027,207		4,808,540
Loans receivable (net of allowance for doubtful loans of \$122,000 in 2012 and \$125,000 in 2011)	12,125,076		12,379,665	
Other assets	549,173	252,253	295,716	235,826
Other long-term investments	128,572,204	102,115,335	128,114,729	98,338,436
Capital assets, net (Note 4)	309,490,019		304,458,942	
Total noncurrent assets	488,642,481	106,394,795	445,249,052	103,382,802
Total assets	\$ 576,399,795	\$ 110,268,606	\$ 531,249,925	\$ 111,193,152
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable trade and other	\$ 13,073,026	\$ 145,532	\$ 9,104,923	\$ 190,986
Accounts payable to Wright State University		1,046,451		830,213
Accrued liabilities	19,889,128		21,814,650	
Deferred revenue (Note 1)	38,947,507		38,491,380	
Refunds and other liabilities	715,166	1,926,215	914,698	1,277,662
Current portion of long-term liabilities (Note 5)	11,350,584	19,131	8,672,785	18,255
Total current liabilities	83,975,411	3,137,329	78,998,436	2,317,116
Noncurrent liabilities:				
Long-term liabilities (Note 5)	89,874,428	115,369	40,717,343	114,745
Total noncurrent liabilities	89,874,428	115,369	40,717,343	114,745
Total liabilities	173,849,839	3,252,698	119,715,779	2,431,861
Net assets:				
Invested in capital assets, net of related debt	270,769,839		272,467,680	
Restricted - nonexpendable:				
Instruction and departmental research		13,795,990		13,635,927
Separately budgeted research		6,430,799		6,702,898
Public service		184,766		181,040
Academic support		604,877		506,775
Student services		77,446		32,410
Operation and maintenance of plant		308,692		(15,504)
Scholarships and fellowships		14,563,571		14,145,804
Auxiliaries		253,846		289,133
Restricted - expendable:				
Instruction and departmental research	7,954	21,744,747	2,778	21,993,359
Separately budgeted research		3,319,673		3,635,411
Public service		423,793		444,915
Academic support		12,791,305		12,401,526
Student services		286,360		249,124
Institutional support	191	5,643,324	296	6,738,402
Operation and maintenance of plant		1,754,363		2,108,930
Scholarships and fellowships		19,193,508	2,948	20,419,965
Loans	18,940,646		18,947,348	
Debt service	780,801		279,141	
Auxiliaries		378,671		183,666
Unrestricted	112,050,525	5,260,177	119,833,955	5,107,510
Total net assets	402,549,956	107,015,908	411,534,146	108,761,291
Total liabilities and net assets	\$ 576,399,795	\$ 110,268,606	\$ 531,249,925	\$ 111,193,152

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011

	2012		2011	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$38,732,000 in 2012 and \$40,821,000 in 2011)	\$ 141,938,151	\$	\$ 134,009,917	\$
Federal grants and contracts	36,186,884		40,562,190	
State grants and contracts	6,029,619		5,688,262	
Local grants and contracts	454,296		352,493	
Nongovernmental grants and contracts	52,166,006		50,911,959	
Sales and services	7,433,325		6,910,875	
Auxiliary enterprises sales (net of scholarship allowances of \$1,895,000 in 2012 and \$1,831,000 in 2011)	16,326,112		17,055,631	
Gifts and contributions		4,827,317		4,796,110
Other operating revenues	2,618,904		3,477,621	
Total operating revenues	263,153,297	4,827,317	258,968,948	4,796,110
OPERATING EXPENSES				
Educational and general:				
Instruction and departmental research	133,125,514		127,303,553	
Separately budgeted research	30,468,076		31,155,958	
Public service	15,745,328		13,324,697	
Academic support	82,110,189		77,112,400	
Student services	18,863,429		17,767,481	
Institutional support	32,609,088	308,743	32,013,910	267,001
Operation and maintenance of plant	22,535,868		23,551,985	
Scholarships and fellowships	21,548,954		23,855,564	
Total educational and general	357,006,446	308,743	346,085,548	267,001
Auxiliary enterprises	25,542,117		25,944,421	
Depreciation	19,705,779		20,083,432	
Total operating expenses	402,254,342	308,743	392,113,401	267,001
Operating (loss)/income	(139,101,045)	4,518,574	(133,144,453)	4,529,109
NONOPERATING REVENUES (EXPENSES):				
Federal appropriations			13,228,167	
State appropriations	89,648,959		88,041,620	
Federal grants	27,679,213		29,110,143	
State grants	3,081,373		3,515,594	
Gifts	6,257,094		6,716,405	
Investment income/(loss) (net of investment expenses of \$118,000 in 2012 and \$133,000 in 2011 for WSU and \$539,956 in 2012 and \$510,091 in 2011 for Foundation)	(223,818)	1,000,559	20,835,513	16,341,983
Interest on capital asset-related debt	(2,620,264)		(1,452,750)	
Payments to Wright State University		(7,264,516)		(7,099,070)
Other nonoperating (expenses)	(2,589,415)		(81,812)	
Net nonoperating revenues (expenses)	121,233,142	(6,263,957)	159,912,880	9,242,913
Gain/(loss) before other revenues, expenses, gains or losses	(17,867,903)	(1,745,383)	26,768,427	13,772,022
Capital appropriations from the State of Ohio	1,241,279		5,692,379	
Capital grants and gifts	7,642,434		7,567,200	
Increase (decrease) in net assets	(8,984,190)	(1,745,383)	40,028,006	13,772,022
NET ASSETS				
Net assets - beginning of year	411,534,146	108,761,291	371,506,140	94,989,269
Net assets - end of year	\$ 402,549,956	\$ 107,015,908	\$ 411,534,146	\$ 108,761,291

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 141,166,074	\$ 135,070,919
Federal, state, local, and nongovernmental grants and contracts	94,451,211	100,691,997
Sales and services of educational and other departmental activities	6,576,596	7,019,020
Payments to employees	(191,222,060)	(186,298,525)
Payments for benefits	(56,649,160)	(54,276,384)
Payments to suppliers	(109,475,146)	(103,992,144)
Payments for scholarships and fellowships	(22,307,555)	(26,647,024)
Student loans issued	(2,866,037)	(579,833)
Student loans collected	3,317,930	3,449,451
Student loan interest and fees collected	435,379	416,110
Auxiliary enterprise sales	15,507,663	17,275,943
Net cash (used) by operating activities	(121,065,105)	(107,870,470)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal appropriations		13,228,167
State appropriations	89,648,959	88,041,620
Direct lending receipts	128,743,892	131,390,046
Direct lending disbursements	(127,981,282)	(131,941,035)
Grants for noncapital purposes	30,760,586	32,625,737
Gifts	6,040,854	6,695,455
Net cash provided by noncapital financing activities	127,213,009	140,039,990
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations from the State of Ohio	1,086,644	6,310,138
Capital grants and gifts received	1,859,394	1,564,300
Purchases of capital assets	(20,710,352)	(16,897,643)
Sales of capital assets	34,767	43,261
Proceeds from capital debt	59,812,973	
Principal paid on capital debt and leases	(8,348,747)	(5,047,258)
Interest paid on capital debt and leases	(2,888,192)	(1,585,997)
Bond interest subsidy	133,834	140,321
Net cash provided/(used) by capital and related financing activities	30,980,321	(15,472,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	22,288,136	3,983,349
Interest on investments	3,657,652	2,942,892
Purchase of investments	(70,708,318)	(29,235,862)
Net cash (used) by investing activities	(44,762,530)	(22,309,621)
Net (Decrease) in Cash and Cash Equivalents	(7,634,305)	(5,612,979)
Cash and Cash Equivalents - Beginning of Year	27,245,330	32,858,309
Cash and Cash Equivalents - End of Year	\$ 19,611,025	\$ 27,245,330

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

**Reconciliation of operating (loss) to
net cash (used) by operating activities:**

	<u>2012</u>	<u>2011</u>
Operating loss	\$ (139,101,045)	\$ (133,144,453)
Depreciation	19,705,779	20,083,432
Provision for doubtful accounts	1,186,122	799,858
Provision for doubtful loans	519,081	576,753
Changes in assets and liabilities:		
Accounts receivable	(4,580,067)	1,609,603
Inventory	(25,888)	163,285
Prepaid expenses	(426,903)	49,567
Deferred charges	34,130	(2,215,368)
Other assets	(31,127)	10,616
Accounts payable	3,290,928	807,428
Accrued liabilities	(1,925,522)	(1,549,230)
Deferred revenue	456,127	2,095,109
Compensated absences	100,000	500,000
Refunds and other liabilities	(199,532)	50,065
Loans to students and employees	(67,188)	2,292,865
Net cash (used) by operating activities	\$ (121,065,105)	\$ (107,870,470)

Noncash Transactions:

Donated Capital Assets	\$ 5,783,040	\$ 6,002,900
Capital Lease	181,632	
Total Noncash Transactions	\$ 5,964,672	\$ 6,002,900

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY

Notes to Financial Statements

Year Ended June 30, 2012

(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 19,700 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 accounting principles generally accepted in 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.

Recent Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as it relates to pension accounting and reporting for the University. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014. Management has not yet determined the effect this statement will have on the university's financial statements.

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 fair 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, software, library books, publications and construction in progress. They are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Building renovations that materially increase the value or extend the useful life of the structure are also capitalized. Normal repairs and maintenance are expensed in the year in which the expenses are incurred. The threshold for capitalizing movable equipment with an estimated useful life of more than one year is \$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)

Accrued Liabilities

The University offered a voluntary separation incentive plan in 2010 in an effort to reduce personnel costs and strategically manage the vacancies created by the plan participants. The total cost of this plan was \$6.8 million and was charged to the departments where the participants performed services. The liability is being paid over three years to a third party administrator. At June 30, 2012 and 2011, \$7 million and \$3 million, respectively, of this liability remains and is recorded in accrued liabilities.

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 \$26.1 million and \$12.1 million, respectively, for the year ended June 30, 2012 and \$24.7 million and \$12.9 million, respectively, for the year ended June 30, 2011.

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 and federal 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.

In 2011 and 2010 the State of Ohio used federal stimulus monies to partially fund the state appropriations provided to the University. In 2012 there were no federal stimulus monies provided to the University.

Wright State University

Notes to Financial Statements (Continued)

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 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 \$37,688,551 and \$36,431,990 for the years ended June 30, 2012 and 2011, 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 2011 comparative information to conform to the 2012 presentation. These reclassifications had no impact on the 2011 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 value of the pledged securities plus the federal deposit insurance must at all times equal one hundred five percent of the total amount of public deposits to be secured by the pooled securities. These securities may be held in the name of the University or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties. The University does not have a deposit policy for custodial credit risk.

Wright State University

Notes to Financial Statements
(Continued)

As of June 30, 2012 and 2011, the university's bank balances are \$21,418,759 and \$24,140,933, respectively. Of these balances, \$17,464,466 and \$19,747,323, 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:

	2012	2011
Petty cash	\$ 54,471	\$ 56,157
Demand deposits	16,849,010	20,487,726
Money market funds	2,068,717	2,563,717
Total	<u>\$ 18,972,198</u>	<u>\$ 23,107,600</u>

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 provides for the prudent investment of the university's assets in a manner which will meet three main objectives: safety, liquidity and return on investment. The investment policy parallels state law which requires an amount equal to at least twenty five percent of the university's investment portfolio 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	
	2012	2011
U.S. Treasury securities	\$ 2,877,054	\$ 2,589,408
U.S. Agency securities	4,774,594	4,690,871
U.S. Agency securities - restricted	44,039,062	
Common and preferred stock	605,722	604,519
Corporate bonds and notes	4,772,394	4,826,487
State Treasury Asset Reserve of Ohio	638,827	4,137,730
Private equity	500,000	
Equity funds	74,992,125	77,667,364
Bond funds	55,951,572	53,742,767
Other	3,200	3,200
Total	<u>\$ 189,154,550</u>	<u>\$ 148,262,346</u>

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

Wright State University

Notes to Financial Statements (Continued)

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. In June 2012, the University entered into a commitment with a private equity fund for \$5,000,000. As of June 30, 2012, the University has an outstanding commitment of \$4,500,000.

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
(Continued)

The maturities of university investments at June 30 are as follows:

Investment Type	2012 Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	\$ 2,877,054	\$	\$ 2,877,054	\$	\$
U.S. Agency securities	4,774,594		3,347,793	1,409,565	17,236
U.S. Agency securities - restricted	44,039,062	6,133,053	37,906,009		
Corporate bonds and notes	4,772,394	468,076	3,626,932	98,416	578,970
Bond funds	55,951,572	15,436,381	19,096,668	21,418,523	
Total	<u>\$ 112,414,676</u>	<u>\$ 22,037,510</u>	<u>\$ 66,854,456</u>	<u>\$ 22,926,504</u>	<u>\$ 596,206</u>

Investment Type	2011 Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	\$ 2,589,408	\$ 398,916	\$ 2,190,492	\$	\$
U.S. Agency securities	4,690,871		3,590,017	975,766	125,088
Corporate bonds and notes	4,826,487	358,546	4,041,217		426,724
Bond funds	53,742,767	15,252,425	14,885,452	23,604,890	
Total	<u>\$ 65,849,533</u>	<u>\$ 16,009,887</u>	<u>\$ 24,707,178</u>	<u>\$ 24,580,656</u>	<u>\$ 551,812</u>

The University invests in mortgage pass-through securities issued by FNMA, GNMA and FHLMC and commercial banking organizations 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, 2012 and 2011, the total value of mortgage pass-through securities is \$2,050,103 and \$1,831,204, 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:

Investment Type	Total	2012 Credit Ratings			
		AAA/Aaa	AA/Aa	A	BBB/Baa
U.S. Treasury Securities	\$ 2,877,054	\$	\$ 2,877,054	\$	\$
U.S. Agency Securities	4,774,594		4,774,594		
U.S. Agency Securities - restricted	44,039,062		44,039,062		
Corporate Bonds and Notes	4,772,394	1,250,637	870,123	1,890,941	760,693
State Treasury Asset Reserve (STAROhio)	638,827	638,827			
Bond Funds	55,951,572	10,130,705	32,826,373	8,965,963	4,028,531
Total	\$ 113,053,503	\$ 12,020,169	\$ 85,387,206	\$ 10,856,904	\$ 4,789,224

Investment Type	Total	2011 Credit Ratings					
		AAA/Aaa	AA/Aa	A	BBB/Baa	CCC/Caa	Not Rated
U.S. Treasury Securities	\$ 2,589,408	\$ 2,589,408	\$	\$	\$	\$	\$
U.S. Agency Securities	4,690,871	4,690,871					
Corporate Bonds and Notes	4,826,487	1,264,304	870,292	2,102,796	538,860	42,397	7,838
State Treasury Asset Reserve (STAROhio)	4,137,730	4,137,730					
Bond Funds	53,742,767	9,886,570	3,789,336	40,066,861			
Total	\$ 69,987,263	\$ 22,568,883	\$ 4,659,628	\$ 42,169,657	\$ 538,860	\$ 42,397	\$ 7,838

The University invests in Government National Mortgage Association (GNMA), or Ginnie Mae, securities which are included above in the amounts listed as U.S. agency Securities. Ginnie Mae is a wholly-owned government corporation. As such, securities issued by Ginnie Mae are explicitly guaranteed by the U.S. government. As of June 30, 2012 and 2011, the University holds GNMA securities with a total value of \$76,793 and \$124,242, respectively.

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. As of June 30, 2012 and 2011, \$56,463,104 and \$12,106,766, respectively, is held by the investment's counterparty, not in the name of the University, but internally designated as held for the University. As of June 30, 2012, \$44,039,062 of the investments held by the counterparty are held in the Series 2011A Bond Project Fund trust account.

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

Wright State University

Notes to Financial Statements
(Continued)

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 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, 2012, fourteen percent (\$26,568,003) of the university's portfolio is held in various Federal Home Loan Bank securities. Of these securities, \$26,220,410 are restricted and held in the Series 2011A Bond Project Fund. As of June 30, 2012, eight percent (\$15,320,013) of the university's portfolio is held in various Federal Home Loan Mortgage Corp. securities. Of these securities, \$13,876,801 are restricted and held in the Series 2011A Bond Project Fund. As of June 30, 2011, the university's portfolio did not hold any issuer which exceeded 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, 2012 and 2011, the university's exposure to foreign currency is limited to its investment in international mutual funds of \$22,476,678 and \$25,876,056, respectively.

Series 2011 and 2009 Bond Proceeds

In November 2011, the University issued \$55,240,000 General Receipt Series 2011A Bonds to fund various projects. As of June 30, 2012, \$45,274,345 of these proceeds remains unspent. Also, in December 2009 the University issued \$11,420,000 General Receipt Series 2009 Bonds to fund various energy efficiency projects for university facilities. As of June 30, 2012 and 2011, \$4,685 and \$505,035, respectively, of the proceeds remains unspent. The unspent proceeds of both Series are held in Project Fund trust accounts as provided for in the bond resolution approved by the Board of Trustees. The bond resolutions also require the bond proceeds to be held by a bank or trust company which is a member of the Federal Deposit Insurance Corporation. The Bank of New York Mellon acts as the trustee of the bond project funds. As of June 30, 2012 and 2011, \$1,239,968 and \$505,035, respectively of the Series 2011A and 2009 proceeds are classified as restricted cash and cash equivalents in the statements of net assets. These deposit balances are included in the money market fund total of \$2,068,717 and \$2,563,717 for June 30, 2012 and 2011, respectively, for disclosure purposes above. The remaining \$44,039,062 of unspent Series 2011A proceeds are held as U.S. Agency securities, as disclosed above. The value of these securities is classified as restricted short-term and restricted noncurrent investments in the statement of net assets.

Wright State University
Notes to Financial Statements
(Continued)

Investment Income

The composition of investment income is as follows:

	Year Ended June 30	
	2012	2011
Net interest and dividend income	\$ 2,174,180	\$ 1,598,963
Realized gains on sales	1,656,701	1,298,177
Unrealized gains/(losses) in fair value	(4,054,699)	17,938,375
Total	\$ (223,818)	\$ 20,835,515

(3) Accounts Receivable

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

	2012	2011
Sponsor receivables	\$ 9,536,248	\$ 8,596,715
Student and student-related accounts	9,196,039	8,299,608
Wright State University Foundation	1,046,451	830,213
Interest receivable	276,397	103,167
State appropriations	398,026	138,422
Other, primarily departmental sales and services	3,488,515	2,767,424
Total	23,941,676	20,735,549
Less: Allowance for doubtful accounts	1,555,000	1,485,000
Net accounts receivable	\$ 22,386,676	\$ 19,250,549

Wright State University

Notes to Financial Statements
(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 is summarized as follows:

	Balance 7/1/2011	Additions	Retirements	Transfers	Balance 6/30/2012
Land	\$ 3,699,530	\$ 352,172	\$	\$	\$ 4,051,702
Land improvements and infrastructure	37,271,284	6,319,943			43,591,227
Buildings	364,792,110	8,948,213		95,646	373,835,969
Machinery and equipment	81,074,752	10,148,412	(12,390,389)		78,832,775
Library books and publications	50,464,737	1,877,197	(1,671,800)		50,670,134
Construction in progress	<u>3,010,897</u>			<u>(95,646)</u>	<u>2,915,251</u>
Total	540,313,310	27,645,937	(14,062,189)		553,897,058
Less accumulated depreciation:					
Land improvements and infrastructure	13,923,325	1,211,353			15,134,678
Buildings	137,643,315	8,878,384			146,521,699
Machinery and equipment	51,906,446	7,251,871	(9,481,308)		49,677,009
Library books and publications	<u>32,381,282</u>	<u>2,364,171</u>	<u>(1,671,800)</u>		<u>33,073,653</u>
Total accumulated depreciation	<u>235,854,368</u>	<u>19,705,779</u>	<u>(11,153,108)</u>		<u>244,407,039</u>
Capital assets, net	<u>\$ 304,458,942</u>	<u>\$ 7,940,158</u>	<u>\$ (2,909,081)</u>	<u>\$</u>	<u>\$ 309,490,019</u>

Wright State University
Notes to Financial Statements
(Continued)

	Balance 7/1/2010	Additions	Retirements	Balance 6/30/2011
Land	\$ 3,699,530	\$	\$	\$ 3,699,530
Land improvements and infrastructure	34,498,370	2,772,914		37,271,284
Buildings	361,281,482	3,510,628		364,792,110
Machinery and equipment	74,199,840	10,263,721	(3,388,809)	81,074,752
Library books and publications	50,017,810	2,049,966	(1,603,039)	50,464,737
Construction in progress	<u>514,009</u>	<u>2,496,888</u>		<u>3,010,897</u>
Total	524,211,041	21,094,117	(4,991,848)	540,313,310
Less accumulated depreciation:				
Land improvements and infrastructure	12,819,022	1,104,303		13,923,325
Buildings	128,815,502	8,827,813		137,643,315
Machinery and equipment	47,244,181	7,785,761	(3,123,496)	51,906,446
Library books and publications	<u>31,618,766</u>	<u>2,365,555</u>	<u>(1,603,039)</u>	<u>32,381,282</u>
Total accumulated depreciation	<u>220,497,471</u>	<u>20,083,432</u>	<u>(4,726,535)</u>	<u>235,854,368</u>
Capital assets, net	<u>\$ 303,713,570</u>	<u>\$ 1,010,685</u>	<u>\$ (265,313)</u>	<u>\$ 304,458,942</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, 2012 and 2011 is summarized as follows:

	Beginning Balance 07/01/2011	Additions	Principal Repayments/ Reductions	Ending Balance 06/30/2012	Current Portion
Bonds and equipment lease purchase obligations:					
General obligation bonds	\$ 32,494,005	\$ 60,091,241	\$ 8,442,904	\$ 84,142,342	\$ 5,250,031
Equipment leases	196,123	181,632	95,085	282,670	100,553
Total bonds and equipment leases	32,690,128	60,272,873	8,537,989	84,425,012	5,350,584
Other liabilities:					
Compensated absences	16,700,000	6,111,580	6,011,580	16,800,000	6,000,000
Total other liabilities	16,700,000	6,111,580	6,011,580	16,800,000	6,000,000
Total long-term liabilities	<u>\$ 49,390,128</u>	<u>\$ 66,384,453</u>	<u>\$ 14,549,569</u>	<u>\$ 101,225,012</u>	<u>\$ 11,350,584</u>
	Beginning Balance 07/01/2010	Additions	Principal Repayments/ Reductions	Ending Balance 06/30/2011	Current Portion
Bonds and equipment lease purchase obligations:					
General obligation bonds	\$ 37,547,252	\$	\$ 5,053,247	\$ 32,494,005	\$ 3,626,706
Equipment leases	323,381		127,258	196,123	46,079
Total bonds and equipment leases	37,870,633		5,180,505	32,690,128	3,672,785
Other liabilities:					
Compensated absences	16,200,000	5,965,834	5,465,834	16,700,000	5,000,000
Total other liabilities	16,200,000	5,965,834	5,465,834	16,700,000	5,000,000
Total long-term liabilities	<u>\$ 54,070,633</u>	<u>\$ 5,965,834</u>	<u>\$ 10,646,339</u>	<u>\$ 49,390,128</u>	<u>\$ 8,672,785</u>

Wright State University

Notes to Financial Statements
(Continued)

Bonds payable on June 30, 2012 consist of Series 2003, 2004, 2009 and 2011 General Receipts Serial and Term bonds. The maturity dates, interest rates, and the outstanding principal balances of capital activities at June 30, 2012 are as follows:

Description	Maturity Dates	Interest Rates	Outstanding Principal	Unamortized Premium	Total
Bonds payable:					
Series 2003	2012-2016	4.00% - 5.00%	\$ 135,000	\$	\$ 135,000
Series 2004	2012-2029	3.50% - 5.00%	18,490,000	607,323	19,097,323
Series 2009	2012-2019	2.31% - 5.31%	8,235,000		8,235,000
Series 2011A	2012-2031	2.00% - 5.00%	52,020,000	3,170,019	55,190,019
Series 2011B	2014-2023	2.13% - 3.75%	1,485,000		1,485,000
Total bonds payable			80,365,000	3,777,342	84,142,342
Equipment lease					
purchase obligations	2012-2016	3.57% - 11.57%	282,670		282,670
Total			\$ 80,647,670	\$ 3,777,342	\$ 84,425,012

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

Year Ended June 30	Principal	Interest	Total
2013	\$ 5,180,554	\$ 3,706,239	\$ 8,886,793
2014	5,374,421	3,534,659	8,909,080
2015	4,590,018	3,347,453	7,937,471
2016	4,727,677	3,156,743	7,884,420
2017	4,915,000	2,934,157	7,849,157
2018-2022	20,800,000	11,209,296	32,009,296
2023-2027	18,775,000	6,706,725	25,481,725
2028-2031	16,285,000	1,986,850	18,271,850
Total	\$ 80,647,670	\$ 36,582,122	\$ 117,229,792

In November 2011, the University issued \$56,725,000 in General Receipts bonds. The Series 2011A bonds, totaling \$55,240,000, were issued to pay the associated bond issuance costs and to finance the construction of a new classroom building, replacement of main water lines, renovation of the Student Union, renovation of the Schuster Concert Hall, improvement and addition of outdoor student recreation space, a construction of a new building for a neuroscience and engineering collaboration, expansion of the Creative Arts Center, replacement of the Nutter Center scoreboard, construction of parking lots and acquisition of a parcel of land adjacent to main campus. The Series 2011A bonds have an effective interest rate of 4.13% and consist of \$37,370,000 serial bonds and \$17,870,000 term bonds.

Wright State University

Notes to Financial Statements (Continued)

The Series 2011B bonds, totaling \$1,485,000, have an effective interest rate of 3.24% and are all serial bonds. These bonds were issued as an advance refunding of \$1,380,000 outstanding Series 2003 General Receipts serial and term bonds which have interest rates of 4.0% and 5.0%. The Series 2003 bonds will be called and bondholders will be paid in November 2013. The net proceeds of the Series 2011B bonds (after payment of issuance expenses) were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 2003 bonds. As a result, the \$1,380,000 Series 2003 bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt. The advance refunding of the Series 2003 bonds resulted in decreased total debt service payments of \$61,000 over 12 years. Refunding the Series 2003 bonds also resulted in an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$55,243. Following the refunding, \$680,000 of Series 2003 bonds remained outstanding because they were not eligible to be called. Of this balance, \$545,000 of the debt was paid in May 2012.

All general receipts of the University, except for state appropriations, are pledged for payment of all outstanding bonds. The Series 2009 Bonds are Federally Taxable – Build America Bonds. The University is eligible for a 35 percent rebate of interest expense paid for the Series 2009 Bonds in the form of a federal subsidy. The rebates received for the years ended June 30, 2012 and 2011 were \$133,834 and \$140,321, respectively. The rebate is reported as Other Nonoperating Revenues and does not reduce the amount reported as interest expense for the year. Likewise, the amounts reported above for future interest expense have not been reduced by the federal rebate anticipated for future years. The University expects to receive \$559,357 in future federal rebates.

(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 assets. Rent expenses for the year ended June 30, 2012 and 2011 were \$2,946,264 and \$2,588,428, respectively.

Future minimum payments for all material operating leases as of June 30, 2012, are as follows:

2013	\$ 2,479,706
2014	1,697,529
2015	1,216,444
2016	533,154
2017	113,330
Total minimum lease payments	<u>\$ 6,040,163</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.

Wright State University

Notes to Financial Statements (Continued)

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 \$8,930,944, \$8,769,990, and \$8,978,828, and to OPERS were \$8,327,165, \$8,320,220, and \$8,178,026, for the years ended June 30, 2012, 2011, and 2010, 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 13.23 percent and .77 percent of a participant's compensation, respectively. Plan participants' contributions were \$4,906,353, \$4,654,491, and \$4,308,845, and the university's contributions to the plan providers amounted to \$5,718,262, \$5,421,393, and \$5,017,868 for the years ended June 30, 2012, 2011, and 2010, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$1,072,697, \$1,003,976, and \$954,802, respectively, for the years ended June 30, 2012, 2011, and 2010. The amount contributed to OPERS by the University on behalf of ARP participants was \$145,362, \$171,328, and \$107,777 for the years ended June 30, 2012, 2011, and 2010, respectively.

(8) Other Postemployment Benefits (OPEB)

The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to STRS Ohio and OPERS.

State Teachers Retirement System of Ohio

STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio Law, funding for postemployment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to postemployment health care for 2012, 2011, and 2010. The portion of the university's 2012, 2011, and 2010 contributions to STRS Ohio used to fund postemployment benefits was \$637,925, \$626,428, and \$641,345 for the years ended June 30, 2012, 2011, and 2010, respectively.

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Notes to Financial Statements
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Ohio Public Employees Retirement System

OPERS provides postemployment health care coverage to age-and-service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefits is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was an effective rate of 4.0%, 4.5%, and 5.3% for the years ended June 30, 2012, 2011, and 2010, respectively. The portion of the university's 2012, 2011, and 2010 contributions to OPERS used to fund postretirement benefits was \$2,379,190, \$2,674,357, and \$3,095,967. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

(9) State Support

The University is a state-assisted institution of higher education which receives a student enrollment-based subsidy from the State of Ohio. This subsidy is determined annually 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 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.

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Notes to Financial Statements
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(10) Commitments and Contingencies

At June 30, 2012, the University is committed under contractual obligations for:

Capital expenditures	\$ 1,457,947
Non-capital goods and services	<u>12,710,459</u>
Total contractual commitments	<u>\$ 14,168,406</u>

These commitments are being funded from the following sources:

State appropriations requested and approved	\$ 300,772
University funds	<u>13,867,634</u>
Total sources	<u>\$ 14,168,406</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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. Management believes that any potential disallowance of claims would not have a material effect on the financial statements.

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 is self-insured for all employee health care benefits with Anthem and Express Scripts, Delta Dental, and Vision Service Plan as the third party administrators. Under the terms of the policy, the University is billed for actual claims on a weekly or monthly basis. In addition, liabilities for estimates of outstanding claims and claims incurred but not reported under self-insurance programs have been recorded in accrued liabilities. Changes in the self-insured health care liabilities for the past two fiscal years are as follows:

	2012	2011
Liability at beginning of fiscal year	\$ 1,600,000	\$ 1,500,000
Current year claims including changes in estimates	27,825,820	25,418,952
Claim payments	<u>(27,625,820)</u>	<u>(25,318,952)</u>
Liability at end of fiscal year	<u>\$ 1,800,000</u>	<u>\$ 1,600,000</u>

Health insurance claims are based upon estimates of the claims liabilities. Estimates are based upon past experience, medical inflation trends, and current claims outstanding, including

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Notes to Financial Statements
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year-end lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the statements of revenues, expenses and changes in net assets.

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

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 \$110,300,000 at June 30, 2012. 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. Following are selected disclosures from the Wright State University Foundation, Inc. financial statements.

A. Summary of Significant Accounting Policies

In accordance 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 principles generally accepted in the United States ("GAAP"). The following is a summary of the Foundation's significant accounting and reporting policies presented to assist the reader in interpreting the financial statements and other data in this report.

Cash and Cash Equivalents

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

Pledges Receivable

Unconditional pledges are recorded in the period that the pledges are received. Conditional pledges are recorded in the period in which the conditions have been met. Payments on 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 at fair value. The fair values of investments are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Investments are initially recorded at their acquisition cost if they were purchased and at fair value if they are received through a contribution or exchange transaction. Securities traded on a national exchange are valued at their last reported sales price on the exchange on which they are traded.

Alternative investments, such as hedge funds, private equity and venture capital instruments, for which there is no ready market, are valued at fair value as estimated by management. To estimate fair value, management may rely on valuations reported by the general partners of such investments in unaudited financial reports and/or the Foundation's independent investment advisor. The Foundation believes the carrying amount of these financial

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Notes to Financial Statements
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instruments is a reasonable estimate of fair value. Because of the inherent uncertainty of valuation in the absence of readily ascertainable market values, the estimated values of those investments may differ from the values that would have been used had a ready market existed for such investments or if the investments were realized, and the differences could be material.

Realized gains or losses are included in the statement of activities. Unrealized gains or losses are based on the differences between cost and fair value of each classification of security and are reported in the statement of activities.

Annuity Assets/Payable

Under charitable gift annuity agreements, the Foundation has recorded the donated assets at fair value and the liabilities to the donor and/or his/her beneficiaries at the present value of the estimated future payments to be distributed by the Foundation to such individuals. The amount of the gift is the difference between the asset and liability and is recorded as gift revenue.

Deposits Held in Custody for Others

These assets represent resources received and held by the Foundation as custodian. The assets are placed in the Foundation's investment portfolio and receive a pro-rata share of investment earnings.

Net Assets

The Foundation's net assets are classified into three categories: (1) unrestricted net assets, which include no donor-imposed restrictions, (2) temporarily restricted net assets, which include donor-imposed restrictions that will be satisfied in the future and (3) permanently restricted net assets, which include donor-imposed restrictions that the assets be maintained permanently.

The unrestricted net assets consist of operating funds available for any purpose authorized by the board of trustees. Included in unrestricted net assets are funds that have been designated as endowments by the board (quasi-endowments). The board may elect to reverse the decision to designate unrestricted net assets.

Temporarily restricted net assets consist of funds arising from a gift in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent. Temporarily restricted net assets also include unspent gains on donor-restricted gifts by virtue of the Foundation's spending policy. This policy, which was approved by the board of trustees, aims to protect the Foundation's donor-designated endowments from the effects of inflation by reinvesting a portion of the earnings on these funds as if they were endowment funds. Since the reinvestment of earnings from endowments was not explicitly designated by the donors, the reinvested earnings cannot be classified as permanently restricted under GAAP.

Quasi-endowment funds may also be established by request of a University college or department in accord with the Foundation's quasi-endowment policy adopted by the board of trustees in fiscal year 2011. The objective of this policy is to allow significantly large temporarily restricted funds to generate earnings that may be used by the requesting unit for the purpose(s) specified by the donor.

Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, that the principal be maintained in perpetuity and only the investment income from investment of the funds be expended. Certain donor endowments also specify that a portion of the earnings from the investment be reinvested as

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Notes to Financial Statements (Continued)

principal, or that all income earned over a period of time be reinvested. Amounts are also transferred for specific uses from time to time, as requested by the donor.

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.

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.

Net Assets Released from Restrictions

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Federal Income Taxes

The Foundation has been approved under the Internal Revenue Code Section 501(c)(3) as a nonprofit organization exempt from federal taxes on its normal activities.

GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2012 or 2011, respectively.

The Foundation is no longer subject to examination by taxing authorities for years before 2009. The Foundation does not have any tax benefits recorded at June 30, 2012, and does not expect that position to significantly change in the next year. The Foundation would recognize interest and/or penalties related to income tax matters in income tax expense, if applicable, and there were no amounts accrued for interest and penalties at June 30, 2012 or 2011.

Fair Value of Financial Instruments

Fair value is defined 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 for the asset or liability in an orderly transaction between market participants on the measurement date. The carrying value of the Foundation's financial instruments, which include cash and cash equivalents, pledges receivable, investments, accounts payable, annuity agreements and long-term debt, approximate fair value.

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Notes to Financial Statements
(Continued)

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2012. Management has performed their analysis through October 10, 2012, the date the financial statements were available to be issued.

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.

Reclassifications

Certain reclassifications have been made to data in the accompanying prior year financial statements to conform to the current year's presentation. These reclassifications had no effect on net assets or the change in net assets.

B. Business and Concentrations of Credit Risk

The Foundation's financial instruments that are exposed to various risks, such as interest rate, market and 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.

Investments are 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. Due to the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible the changes in risks in the near term would result in material changes in the fair value of long-term investments and net assets of the Foundation.

C. Fair Value of Financial Instruments

Fair value is 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 on the measurement date.

The fair value hierarchy established by U.S. GAAP 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.

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Notes to Financial Statements
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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 and on the following page for the years ended June 30, 2012 and 2011:

Fair Value Measurements at June 30, 2012 Using				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<u>Assets</u>				
Gifts receivable from trusts held by others	\$	\$	\$ 1,414,100	\$ 1,414,100
Investment in securities:				
Mutual funds:				
Equity	39,152,712	2,783,963	9,148	41,945,823
Fixed Income	1,373,104	38,527,083	651,590	40,551,777
Alternative assets:				
Hedge funds		12,033,512		12,033,512
Private equity			1,468,920	1,468,920
Distressed debt		4,545,477		4,545,477
Total investment in securities	40,525,816	57,890,035	2,129,658	100,545,509
Other investments:				
Limited partnerships			1,354,550	1,354,550
Annuity assets:				
Cash and equivalents		3,117		3,117
Mutual funds-securities	46,088	166,071		212,159
Total annuity assets	46,088	169,188		215,276
Total	\$ 40,571,904	\$ 58,059,223	\$ 4,898,308	\$ 103,529,435

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Notes to Financial Statements
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Fair Value Measurements at June 30, 2011 Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<u>Assets</u>				
Gifts receivable from trusts held by others	\$	\$	\$ 1,545,600	\$ 1,545,600
Investment in securities:				
Bonds	2,520,354			2,520,354
Mutual funds:				
Equity	36,257,064	6,068,095	4,128	42,329,287
Fixed Income	818,158	31,195,603	416,980	32,430,741
Alternative assets:				
Hedge funds		12,364,807		12,364,807
Private equity			1,070,283	1,070,283
Distressed debt		6,052,950		6,052,950
Total investment in securities	39,595,576	55,681,455	1,491,391	96,768,422
Other investments:				
Limited partnerships			1,347,334	1,347,334
Annuity assets:				
Cash and equivalents		9,940		9,940
Mutual funds-securities	42,378	170,362		212,740
Total annuity assets	42,378	180,302		222,680
Total	\$ 39,637,954	\$ 55,861,757	\$ 4,384,325	\$ 99,884,036

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Notes to Financial Statements
(Continued)

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 years ended June 30, 2012 and 2011:

	Gifts Receivable from Trusts Held by Others	Equity Mutual Funds	Fixed Income Mutual Funds
Beginning balance, June 30, 2011	\$ 1,545,600	\$ 4,128	\$ 416,980
Interest and dividends			8,414
Realized gains on sales		958	8,841
Unrealized gains included in earnings		2,850	269
Net purchases/(sales)		(856)	320,592
Change in value of split interest agreements	(131,500)		
Net transfers in/(out) of Level 3		2,068	(103,506)
Ending balance, June 30, 2012	<u>\$ 1,414,100</u>	<u>\$ 9,148</u>	<u>\$ 651,590</u>
	Private Equity	Limited Partnerships	
Beginning balance, June 30, 2011	\$ 1,070,283	\$ 1,347,334	
Realized gains on sales	12,431		
Unrealized gains included in earnings	56,475	47,072	
Net purchases/(sales)	329,731	(39,856)	
Ending balance, June 30, 2012	<u>\$ 1,468,920</u>	<u>\$ 1,354,550</u>	
	Gifts Receivable from Trusts Held by Others	Equity Mutual Funds	Fixed Income Mutual Funds
Beginning balance, June 30, 2010	\$ 1,305,300	\$ 9,798	\$ 157,768
Interest and dividends		(55)	1,739
Realized losses on sales		(439)	(17,517)
Unrealized gains/(losses) included in earnings		(4,417)	70,727
Net purchases/(sales)		(1,028)	231,742
Change in value of split interest agreements	240,300		
Net transfers in/(out) of Level 3		269	(27,479)
Ending balance, June 30, 2011	<u>\$ 1,545,600</u>	<u>\$ 4,128</u>	<u>\$ 416,980</u>
	Private Equity	Distressed Debt	Limited Partnerships
Beginning balance, June 30, 2010	\$ 535,739	\$ 4,208,473	\$ 1,043,140
Realized gains on sales	9,546		
Unrealized gains included in earnings	108,185		8,642
Net purchases	416,813		295,552
Net transfers out of Level 3		(4,208,473)	
Ending balance, June 30, 2011	<u>\$ 1,070,283</u>	<u>\$ 4,208,473</u>	<u>\$ 1,347,334</u>

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Notes to Financial Statements
(Continued)

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 (Level 3 inputs).

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, as described in Note 3. The fair value of money markets and bonds are based on quoted prices in active markets (Level 1 inputs).

Categorization of the fair value of the investment in mutual funds is based upon the Foundation's proportionate share of individual fund assets within the pooled investment portfolio. Foundation management reviews the valuations and returns in comparison to industry benchmarks and other relevant information (Level 2 inputs).

The Foundation's hedge fund investment is a “fund of funds” vehicle structured as an offshore company that invests all of its capital in private placement funds. The fund's investment objective is to seek to achieve a return somewhere between historical market equity and fixed income returns with a moderate level of risk undertaken. The fund is broadly diversified and invests in multiple hedge fund strategies including convertible bond hedging, credit hedging, distressed debt, equity market neutral, equity long/short, merger arbitrage, short biased and sovereign debt and mortgage hedging. The fund generally invests in 30-40 hedge funds and the fund of funds manager requires full transparency of each of the underlying funds' investment positions. The Foundation is no longer subject to the fund's initial one-year lock-up period and may, therefore, request liquidation at net asset value on a quarterly basis with 65 days prior notification (Level 2 inputs). At June 30, 2012, the Foundation has no significant unfunded commitments to its hedge fund allocation.

For private equity and commercial loans, for which there is no active market, information such as historical and current performance of the underlying assets, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual fund manager, are utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market value volatility (Level 3 inputs).

The private equity fund investment is structured as a domestic partnership in which the Foundation is a limited partner. The fund seeks to invest the capital contributed to it in a diversified pool of long-term investments in non-publically traded companies. Diversification is accomplished by investing 40-60% of committed capital in underlying funds focused on the United States, 20-40% on Europe and 0-30% on emerging markets. Capital commitments of the limited partners are payable to the partnership in installments over a 3 – 5 year period. At June 30, 2012, the Foundation's total capital commitment of \$3,500,000 was 41.6% (\$1,455,908) funded. Due to the long-term commitment of capital and the unpredictability of capital calls and partnership distributions, the fund is generally considered illiquid. It is also not unusual for private equity funds to experience losses in the early years of their existence.

The Foundation's investment in commercial loans is in the form of a fund that invests in a diversified portfolio of structured credit instruments, the majority of which are Collateralized Debt Obligation (CDO) equity and mezzanine notes. CDOs are structured finance securities that hold a diversified pool of income-generating collateral that is financed through the issuance of debt securities. CDO investors assume the first level of default risk. These notes are lowly correlated to traditional and other alternative investments have minimal interest rate risk and are highly transparent. The Foundation's investment in this asset class was fully funded at June 30, 2012. The Foundation is no longer subject to the investment's two year lockup period and may, therefore, request liquidation on a quarterly basis with 69 days prior notice.

Valuation of limited partnership shares reported as “other investments” are derived from reports issued by the general partners adjusted for capital contributions and withdrawals throughout the

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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 valued based upon Level 3 inputs.

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 FASB standards, 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 applicable FASB guidance with respect to the level classification defined therein.

C. Pledges Receivable

Pledges receivable at June 30, 2012 and 2011, by fund type, are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Less than one year	\$ 51,920	\$ 1,603,873	\$ 146,899	\$ 1,802,692
One to five years		1,523,941	185,238	1,709,179
Six years or greater		2,000,000		2,000,000
Gross pledges receivable	51,920	5,127,814	332,137	5,511,871
Present value discount	(20)	(1,057,914)	(3,537)	(1,061,471)
Allowance for uncollectible pledges	(100)	(27,500)	(8,400)	(36,000)
Pledges receivable (net)	<u>\$ 51,800</u>	<u>\$ 4,042,400</u>	<u>\$ 320,200</u>	<u>\$ 4,414,400</u>

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Less than one year	\$ 39,250	\$ 1,770,682	\$ 95,628	\$ 1,905,560
One to five years		2,338,211	75,440	2,413,651
Six years or greater		2,000,000		2,000,000
Gross pledges receivable	39,250	6,108,893	171,068	6,319,211
Present value discount	50	(1,123,893)	(3,368)	(1,127,211)
Allowance for uncollectible pledges	(100)	(21,200)	(3,200)	(24,500)
Pledges receivable (net)	<u>\$ 39,200</u>	<u>\$ 4,963,800</u>	<u>\$ 164,500</u>	<u>\$ 5,167,500</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 .72% to 5.10%.

D. Gifts Receivable From Trusts Held By Others

The Foundation is a party to charitable gift trusts. Third party trustees maintain trust assets in irrevocable trusts for the benefit of the Foundation. The fair values of the trusts are estimated based upon the fair value of the assets contributed by the donor less the present value of the

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payment expected to be made to other beneficiaries. The present value is calculated using discount rates the year in which the trust was established, and range from 4.09% to 4.97%. The balances at June 30, 2012 and 2011, are \$1,414,100 and \$1,545,600, respectively, and are included in Temporarily Restricted net assets.

E. Investment in Securities

The cost and fair value of the Foundation's investments, at June 30, 2012 and 2011, are as follows:

	2012	2011
Bonds	\$	\$ 2,520,354
Mutual Funds	82,497,600	74,760,027
Alternative assets	18,047,909	19,488,041
Totals	<u>\$ 100,545,509</u>	<u>\$ 96,768,422</u>

Net realized gains (losses) on sales of investments were \$628,997 and (\$3,917,350) for the years ended June 30, 2012 and 2011, respectively. Calculation of net realized gains on sales of investments is based on original cost. Net unrealized gains (losses) amounted to (\$1,916,361) and \$17,345,741 for the years ended June 30, 2012 and 2011, respectively.

F. Debt Guaranties

During fiscal year 2011, the Foundation entered into agreement with Dayton Regional STEM Schools, Incorporated ("STEM") guarantying payments on a lease (and such other obligations imposed by the lease) related to the purchase and renovation of an existing building that is utilized by the School in fulfillment of its corporate purposes. STEM is one of ten Ohio schools offering students a relevant, real world educational experience that will prepare them for college and opportunities in the work world. Wright State University has acted as STEM's fiscal agent as well as providing space, supplies and personnel in support of its operations. The agreement pledges unrestricted net assets of the Foundation in an amount not to exceed \$3 million and the designation of unrestricted net assets in the amount of one year of maximum debt service (\$600,000) on bonds associated with the project. Since the guarantee may expire without being drawn upon, the total guarantee does not necessarily represent future cash requirements. As of June 30, 2012, no amounts have been recognized as a liability under the financial guaranty in the Foundation's statement of financial position as the likelihood that STEM would be unable to fulfill its obligation in full or in part under the debt agreement is not considered to be probable.

Also during fiscal year 2011, the Foundation entered into an agreement with Wright State Physicians, Incorporated ("WSP") guarantying the debt service payments on \$13.5 million worth of bonds issued to finance construction of a three-story medical office building on Wright State's main campus that will be used to fulfill WSP's corporate purposes. WSP is the faculty practice plan for Wright State's Boonshoft School of Medicine ("BSOM"), which functions to recruit and retain clinicians and scientists in support of the clinical, educational, research and community service activities of BSOM. The agreement pledges the remaining proceeds of a large donation to BSOM made in fiscal year 2005. As of June 30, 2012, the market value of this gift, segregated in a separate portfolio, was \$18,489,803. Since the guarantee may expire without being drawn upon, the total guarantee does not necessarily represent future cash requirements. As of June 30, 2012, no amounts have been recognized as a liability under the financial guaranty in the Foundation's statement of financial position as the likelihood that WSP would be unable to fulfill its obligation in full or in part under the debt agreement is not considered to be probable.



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