



WRIGHT STATE UNIVERSITY

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WRIGHT STATE
UNIVERSITY

ANNUAL REPORT

FOR THE
YEAR ENDED

JUNE 30, 2014

OFFICE OF THE
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DAYTON, OH 45435

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WRIGHT STATE UNIVERSITY

Annual Report
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Wright State University's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2014 with selected comparative information for the years ended June 30, 2013 and 2012. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

Financial and Other University Highlights

- The University concluded its 2008-2013 "Relentless" strategic plan at the beginning of 2014 and implemented its new 2013-2018 "Empower" strategic plan. Several campus-wide events celebrated the conclusion of "Relentless" and the achievements and successes that it brought. Dozens of achievements were realized for the five goals of "Relentless" which included academic distinctiveness and quality, educational attainment, research and innovation, community transformation, and valued resources. The University is excited to further its efforts on the new "Empower" strategic plan over the next five years.
- The University continues to make progress executing its capital plan. Phase 2 of the university's \$25.2 million energy conservation project is almost complete. As a result of this activity, energy savings are expected to be in excess of \$35 million over a 15 year period. In addition, significant progress has been made on the Neuroscience and Engineering Collaboration (NEC) Building as well as the Student Success Center and Classroom Building. These state-of-the-art facilities will create the needed capacity for the university's research and innovation goals as well as the student access and educational attainment objectives. Both buildings are expected to be completed near the end of 2015.
- In addition to the energy savings identified above, the University experienced additional cost savings through other extensive resource optimization efforts. A partnership was developed with a new provider for a hospitality services program which realized an additional \$0.8 million in revenue for the University. In addition, a shared services initiative was launched with two other public institutions of higher education for enterprise-managed print services which is housed on Wright State's campus and results in lower print production pricing. Also in process is a managed print project that will significantly decrease office copy and printing costs through an optimization of print devices across the three partners' campuses. Other efforts included a strategic review and update of the university's health care plan and more effectively and economically addressing the use and costs of cell phones. The University persistently looks for optimization opportunities in an effort to effectively manage its expenses.
- Wright State continues to be named in various national ratings for its achievements in academic and student success. Wright State was again named among one of the "Best in the Midwest" colleges in *The Princeton Review*, which cited the university's challenging academic experience and personal attention to students. In addition, for the fourth year in a row, Wright State was among 260 Best National Universities listed in the annual "America's Best Colleges" rankings by *U.S. News and World Report*. Key factors considered for this designation are peer assessment, graduation and retention rates, faculty resources, student selectivity, financial resources, alumni giving, and graduation rate performance.
- Two different sources have named Wright State to their top "Military Friendly Schools" in recognition of the support the University provides to student veterans and students in the military. Both *Victory Media* and *Military Advanced Education* bestowed this honor on the University for the fifth year in a row. *Victory Media* honors the top 20 percent of colleges, universities, and trade schools that are doing the most to embrace America's military service members, veterans and spouses as students and to ensure their success on campus.

- Wright State's Model UN team continued its remarkable streak at the National Model United Nations Conference, receiving the highest recognition possible at the competition for the 35th year in a row. Competing against approximately 150 universities from around the world, Wright State was one of 20 colleges to receive Outstanding Delegation recognition.
- For over two decades, Wright State University has served as the fiscal agent for OhioLINK, a statewide library initiative of Ohio's college and university libraries and the State of Ohio. In an effort to better streamline operations and improve overall efficiency, the State of Ohio consolidated OhioLINK into the Ohio Technology Consortium during 2014. The Ohio State University was then appointed the new fiscal agent for OhioLINK. Before the transition to The Ohio State University, all of OhioLINK's assets, liabilities, revenues, and expenses had been included in the university's financial statements. As a result of the transition, only a portion of OhioLINK's revenues and expenses and none of the assets and liabilities were included in the university's financial statements in 2014. As these balances and amounts had been significant, this will contribute to a number of variance explanations the reader will see throughout this analysis.
- The University raised tuition by only 2.2% and 3.5% for all degree levels at both its campuses and for its professional schools in 2014 and 2013, respectively. The University attempts to minimize annual tuition increases as much as possible. Continued revenue enhancing efforts and expense optimization initiatives are implemented each year in order to mitigate the necessary increases in tuition costs. Wright State continues to maintain the fourth lowest in-state undergraduate tuition rate among Ohio's thirteen four-year public institutions.
- Total state appropriations increased \$2.1 million in 2014 over 2013 and fell \$0.3 million in 2013 from 2012 after removing the effects of OhioLINK. The 2014 increase was primarily a result of a larger pool of State dollars awarded to the state universities as well as the university's continued success in driving course and degree completions in alignment with the priorities of the State's performance funding model.
- Net position decreased \$3.3 million in 2014. While there was an increase in net investment in capital of \$5.5 million from all of the capital projects activity occurring on campus (net of depreciation expense), restricted and unrestricted net position fell by \$8.8 million, primarily in unrestricted net position, due to utilizing unrestricted resources for some of the capital investments and for new investments in targeted enrollment strategies. Net position decreased \$8.9 million in 2013 primarily in invested in capital assets largely due to the issuance of a net \$34.5 million of new bonds and notes payable.
- Fall 2013 headcount was 17,595 as opposed to fall 2012 headcount of 17,789. Although total headcount fell in fiscal year 2014, student tuition and fees were relatively level with fiscal year 2013 as the University had an increase in international students which increased the gross fees due to the out of state surcharge for nonresident students. In addition, the University experienced a shift in the student mix with an increase in graduate level enrollment offsetting a slight decrease in undergraduate student enrollment. Fall 2012 headcount represented a 9.1% decrease from fall 2011 headcount which was 19,721. This decrease in headcount was primarily attributable to the effort of students wanting to graduate before the fall of 2012 when the University converted from quarters to semesters.
- During 2014, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The principal effect of the adoption of this GASB statement is the requirement for the expensing of debt issuance costs. The University has reflected this accounting change retroactively as required by the GASB guidance. Please see New Accounting Standards Adopted in Note 1 of the financial statements for further details.

Using the Annual Report

This annual report includes three financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These financial 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 the university's overall financial condition and how it has changed as a result of the current year's financial activities. These financial statements present similar information to that disclosed in private sector (i.e. corporate) financial statements. The financial statements will also assist the reader in evaluating the ability of the University to meet its financial obligations. The Statement of Cash Flows presents information related to both cash inflows and cash outflows and is further categorized by operating, noncapital financing, capital and related financing, and investing activities.

Statements of Net Position

The Statement of Net Position, which reports all assets, liabilities, deferred inflows and deferred outflows of the University, presents the financial position of the University at the end of the fiscal year. Our net position is simply the residual after subtracting liabilities and deferred inflows from the sum of assets and deferred outflows. The change in net position 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 position as of June 30 is as follows:

| | 2014 | 2013 | 2012 |
|--|-----------------------------------|-------------------|-------------------|
| | (All dollar amounts in thousands) | | |
| Current assets | \$ 105,750 | \$ 133,250 | \$ 87,729 |
| Noncurrent assets: | | | |
| Capital assets, net | 332,897 | 305,024 | 309,490 |
| Other | 131,735 | 148,929 | 178,755 |
| Deferred outflows of resources | 443 | 472 | |
| Total assets and deferred outflows | <u>570,825</u> | <u>587,675</u> | <u>575,974</u> |
| Current liabilities | 68,633 | 76,668 | 83,975 |
| Noncurrent liabilities | 112,224 | 117,768 | 89,875 |
| Total liabilities and deferred inflows | <u>180,857</u> | <u>194,436</u> | <u>173,850</u> |
| Net position: | | | |
| Net investment in capital | 270,844 | 265,313 | 271,125 |
| Restricted | 17,350 | 17,747 | 18,949 |
| Unrestricted | 101,774 | 110,179 | 112,050 |
| Total net position | <u>\$ 389,968</u> | <u>\$ 393,239</u> | <u>\$ 402,124</u> |

The university's net position decreased \$3.3 million in 2014. A large portion of the \$8.4 million unrestricted decrease was a result of the implementation of a number of strategic investments designed to stimulate and grow enrollment. While some of these investments, such as the Wright State International Gateway (created to focus on the growth of international student enrollment), have already shown positive financial results, many of the initiatives require more time to demonstrate success. In addition, unrestricted resources were utilized for a portion of the university's capital projects. This also helps explain the net increase of \$5.5 million in net investment in capital net position. The University was very active in 2014 with a number of capital projects. Noteworthy projects include the NEC Building, the Student Success Center and Classroom Building, and the energy conservation project which is nearly completed. While the primary funding for these projects is from prior year debt issuances and private donations, the University has contributed

internal resources to supplement the overall funding. The university's net position decreased \$8.9 million in 2013 from 2012, primarily due to a decrease in net investment in capital. Modest additions to capital assets were more than offset by the annual depreciation charge. In addition, restricted net position decreased \$1.2 million due to the return of loan funds to the federal government. Unrestricted net position contributed \$1.9 million to the decline from 2012 to 2013, as the University converted an internal loan fund to a need based financial aid program and awarded all of the aid in 2013.

Total assets decreased \$16.9 million in 2014 from 2013. *Current assets*, comprised primarily of cash and operating investments, student and sponsor receivables, and prepaid expenses, decreased by \$27.5 million in 2014 from 2013. This decrease is almost entirely the result of two items. Restricted cash and investments decreased by \$17.7 million during 2014 as a result of the spending of bond proceeds secured in previous years to fund the university's capital projects. In addition, prepaid expenses fell by \$11.7 million as a result of the OhioLINK program transitioning away from the University. OhioLINK comprised the majority of the university's prepaid expenses in the form of license agreements for subscriptions, periodicals and the like that were utilized by its members. None of those prepaids remained with WSU at June 30, 2014. Current assets increased \$45.6 million from 2012 to 2013 due to a number of items. Restricted cash and investments increased \$54.5 million as a result of unspent debt proceeds from new 2013 borrowings. Operating cash and investments decreased \$18.6 million as a result of a permanent change in the payroll cycle stemming from the change from quarters to semesters and an increase in accounts receivable. Accounts receivable increased \$12.9 million primarily due to timing and transition items stemming from the transition of the University from quarters to semesters.

Other noncurrent assets decreased \$17.2 million from \$148.9 million in 2013 to \$131.7 million in 2014. These assets are comprised of long-term investments, long-term student loans receivable, and long-term prepaid expenses and advanced charges. Long-term unrestricted investments represent the majority of the balance in both 2014 and 2013 at \$120.2 million and \$124.6 million, respectively, resulting in a decrease of \$4.4 million, or only 3.5 percent. Restricted investments, comprised of unspent bond and notes payable proceeds, also were totally spent in 2014 on the various capital projects for which they were borrowed resulting in a decrease of \$11.7 million in 2014. Loans receivable comprise the balance of the noncurrent assets at \$11.4 million and \$12.0 million in 2014 and 2013, respectively. Long-term prepaids and advanced charges decreased \$0.4 million primarily due to the transition of OhioLINK. Other noncurrent assets decreased \$29.8 million in 2013 from 2012. This was almost entirely a result of a \$26.2 million decrease in restricted investments. This decrease was more than offset by a \$54.5 million increase in current restricted cash and investments in 2013 as the net increase of current and noncurrent restricted cash and investments mirrors the new 2013 borrowings.

Capital assets, net of depreciation increased \$27.9 million from \$305.0 million in 2013 to \$332.9 million in 2014. The majority of capital activity in 2014 related to three projects. First was the continuation of the second phase of the energy conservation project for which over \$15.8 million was spent. Next was the NEC Building where approximately \$14.3 million was expended in 2014. Another notable project was the Student Success Center and Classroom building where another \$5.5 million of resources was spent. Routine moveable equipment and library acquisitions and disposals were made during the year. Capital assets decreased \$4.5 million from 2012 to 2013. The project with the largest amount of activity in 2013 was the second phase of the energy conservation project with \$4.5 million in expenditures.

Deferred Outflows of Resources is a new classification in 2014 due to the implementation of GASB 65. The balances of \$0.4 million and \$0.5 million in 2014 and 2013, respectively, represent the remaining unamortized loss from the refunding of debt in 2013.

Current liabilities are comprised primarily of accounts payable and accrued liabilities; unearned revenues from both student fees and advance payments for contracts and grants; and the current portion of long-term liabilities. These liabilities decreased \$8.1 million from \$76.7 million at June 30, 2013 to \$68.6 million at June 30, 2014. The overall change in current liabilities is comprised of changes in a number of balances. Accounts payable increased \$3.7 million from \$13.2 million in 2013 to \$16.9 million in 2014. This increase was the result of invoices received close to the end of the year for capital activity that remained unpaid at June 30. Unearned revenue decreased \$11.5 million from \$35.4 million in 2013 to \$23.9 million in 2014. The primary components of unearned revenue are income received in advance of expenditures from project

sponsors on contracts and grants and summer quarter tuition and fees related to fiscal year 2015 received before June 30, 2014. The \$11.5 million decrease in unearned revenue resulted entirely from a decrease in advanced sponsor payments primarily driven by the transition of fiscal agency for OhioLINK to The Ohio State University. One new unearned revenue source in 2014 was the university's new hospitality services contractor which provided approximately \$2.1 million of capital and capital related investments which the University is amortizing over the ten year contract. Of the unamortized balance, approximately \$0.2 million is classified as current liabilities and \$1.7 million is classified as a noncurrent liability.

Current liabilities decreased \$7.3 million from \$84.0 million at June 30, 2012 to \$76.7 million at June 30, 2013 from a combination of factors. The largest contributor of the decrease was \$6.4 million due to a change in the required accruals at June 30, 2013 from the conversion of the academic calendar from quarters to semesters. Unearned revenue also decreased \$3.5 million primarily from a decrease in sponsor payments for OhioLINK. These two decreases were partially offset by an increase of \$2.2 million in the current portion of long-term liabilities due to the issuance of new debt in 2013.

Noncurrent liabilities decreased \$5.6 million from \$117.8 million at June 30, 2013 to \$112.2 million at June 30, 2014. This decrease is the result of the University paying debt service in 2014 for all of its debt issuances offset by the \$1.7 million increase in unearned revenue from the hospitality services capital investments. Noncurrent liabilities increased \$27.9 million from \$89.9 million at June 30, 2012 to \$117.8 million at June 30, 2013. This increase was the result of the University issuing \$34.5 million of new debt in 2013 less another year of debt service for all outstanding debt.

Net position represents the remaining balance of the university's assets after adding deferred outflows and deducting liabilities and deferred inflows. A more detailed summary of the university's net position as of June 30 is as follows:

| | 2014 | 2013 | 2012 |
|---------------------------|-----------------------------------|-------------------|-------------------|
| | (All dollar amounts in thousands) | | |
| Net investment in capital | \$ 270,844 | \$ 265,313 | \$ 271,125 |
| Restricted expendable | 17,350 | 17,747 | 18,949 |
| Unrestricted: | | | |
| Designated | 105,409 | 112,252 | 114,789 |
| Undesignated | (3,635) | (2,073) | (2,739) |
| Total net position | <u>\$ 389,968</u> | <u>\$ 393,239</u> | <u>\$ 402,124</u> |

Net investment in capital 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 2014, the University engaged heavily in a number of strategic capital investments. A significant amount of work, approximately \$15.8 million, was conducted on the second phase of the university's energy conservation project. In addition, the University made considerable progress on the NEC Building incurring approximately \$14.3 million of expenditures for the project. Additionally, over \$5.5 million was invested in the Student Success Center and Classroom building. A handful of other capital projects began which will see major progress during 2015. During 2013, the University constructed a Welcome Center at the front entrance of the Student Union, completed the student RaiderConnect Center, began work on the new NEC Building and new Student Success Center and Classroom building, and made substantial progress on the second phase of the energy conservation project.

Restricted expendable represents funds externally restricted to specific purposes, such as student loans or sponsored projects. Almost the entire restricted expendable fund balances represent funds restricted for student loans. The \$1.2 million decrease in 2013 is a result of the university's decision to discontinue the use of a federal loan program, which resulted in the return of funds.

Unrestricted net position represents funds the University has at its disposal to use for whatever purposes it determines appropriate. While these funds 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 the portion of their budgeted funds which remain unspent at the close of each fiscal year. The University believes this practice permits the units to manage their resources more effectively, allowing units to hold funds 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 supplementing other revenue sources. Unrestricted net position decreased \$8.4 million in 2014, from \$110.2 million in 2013 to \$101.8 million in 2014. The \$8.4 million decrease can be primarily attributed to strategic investments in enrollment growth strategies and additional capital investments in certain projects from unrestricted sources. The university's continued plan is to strengthen the unrestricted undesignated fund balance through enrollment growth and retention of students.

Statements of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University. A summary of the university's revenues, expenses and changes in net position for the years ended June 30 is as follows:

| | 2014 | 2013 | 2012 |
|---|-----------------------------------|-------------------|-------------------|
| | (All dollar amounts in thousands) | | |
| Operating revenues: | | | |
| Student tuition & fees - net | \$ 144,231 | \$ 142,514 | \$ 141,938 |
| Grants and contracts | 72,915 | 99,140 | 94,837 |
| Sales and services | 5,883 | 6,387 | 7,433 |
| Auxiliary enterprises | 9,915 | 15,165 | 16,326 |
| Other | 2,940 | 2,415 | 2,619 |
| Total | <u>235,884</u> | <u>265,621</u> | <u>263,153</u> |
| Operating expenses | <u>384,182</u> | <u>414,473</u> | <u>402,254</u> |
| Operating loss | (148,298) | (148,852) | (139,101) |
| Nonoperating revenues (expenses): | | | |
| State appropriations | 85,148 | 88,941 | 89,649 |
| Federal grants | 22,702 | 26,520 | 27,679 |
| State grants | 3,419 | 3,378 | 3,081 |
| Gifts | 7,351 | 6,687 | 6,257 |
| Investment income (loss) | 17,550 | 15,781 | (224) |
| Interest expense | (3,402) | (3,723) | (2,620) |
| Other expense | (690) | (424) | (2,820) |
| Capital appropriations | 8,319 | 821 | 1,241 |
| Capital grants and gifts | 4,630 | 1,986 | 7,642 |
| Total | <u>145,027</u> | <u>139,967</u> | <u>129,885</u> |
| Decrease in net position | (3,271) | (8,885) | (9,216) |
| Net position - beginning of year, as restated | <u>393,239</u> | <u>402,124</u> | <u>411,340</u> |
| Net position - end of year | <u>\$ 389,968</u> | <u>\$ 393,239</u> | <u>\$ 402,124</u> |

Interpretation of the university's Statements of Revenues, Expenses, and Changes in Net Position is complicated by the fact that Wright State University has served as the fiscal agent for OhioLINK through a portion of 2014. As previously mentioned, during 2014 OhioLINK consolidated with the Ohio Technology Consortium and fiscal responsibility for OhioLINK transitioned to The Ohio State University. Prior to the transition, OhioLINK's revenues from state appropriations, federal pass-through grants (grants and contracts) and from other college and university libraries (grants and contracts) and expenses were included in our financial statements. Therefore, OhioLINK's impact on the University's financial statements was greatly reduced in 2014. Certain portions of this analysis are presented 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 | | | | |
|--|----------------------|----------------------|------------------------|-----------------------------------|
| | 2014 | 2013 | Difference | Percent Increase (Decrease) |
| Revenues: | | | | |
| Grants and contracts | \$ 11,700,414 | \$ 31,987,124 | \$ (20,286,710) | (63.4)% |
| State appropriations | 231,505 | 6,086,889 | (5,855,384) | (96.2)% |
| Total revenues | <u>\$ 11,931,919</u> | <u>\$ 38,074,013</u> | <u>\$ (26,142,094)</u> | <u>(68.7)%</u> |
| Expenses: | | | | |
| Total OhioLINK | <u>\$ 11,931,919</u> | <u>\$ 38,074,013</u> | <u>\$ (26,142,094)</u> | <u>(68.7)%</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 59 percent of the university's total 2014 revenues, another 26 percent of 2014 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 because it is intended to support instructional activities. While the University experienced a slight decline in enrollment from 2013 to 2014, the modest increase in tuition rates resulted in consistent gross tuition revenue.

The State of Ohio has collaborated with Ohio's public higher education institutions and redefined how state subsidy is earned. In the past, subsidy was primarily based on enrollments. Starting in 2014, the allocation of subsidy is based on degree and course completions. While there are additional influences and factors affecting the actual allocation of the subsidy, this change promotes the importance of the academic success of the student, which parallels the university's mission and strategy. Wright State views the changes to the subsidy allocation model as very positive for both the students and the University. In fact the funding received from the State of Ohio, net of OhioLINK, increased 2.5% in 2014.

Internally, the University continues its efforts to develop and implement a new resource allocation model that focuses on strategic incentives for revenue growth and review of current academic programs and administrative processes as opposed to an allocation based on simple expense reductions. In addition, the University has been successful in expanding its 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 initiatives have the potential to enhance revenue for the University and should help offset some of the decline in our more traditional revenue sources such as state appropriations. Trends have shown the amount of state appropriations allocated to Wright State University and higher education in general have not kept pace with overall enrollment growth and have in fact been shrinking, requiring the University to rely more on tuition and fees as its primary operating revenue source. In response to this dynamic, the University continues to emphasize the development of alternative revenue sources and reengineering its business model.

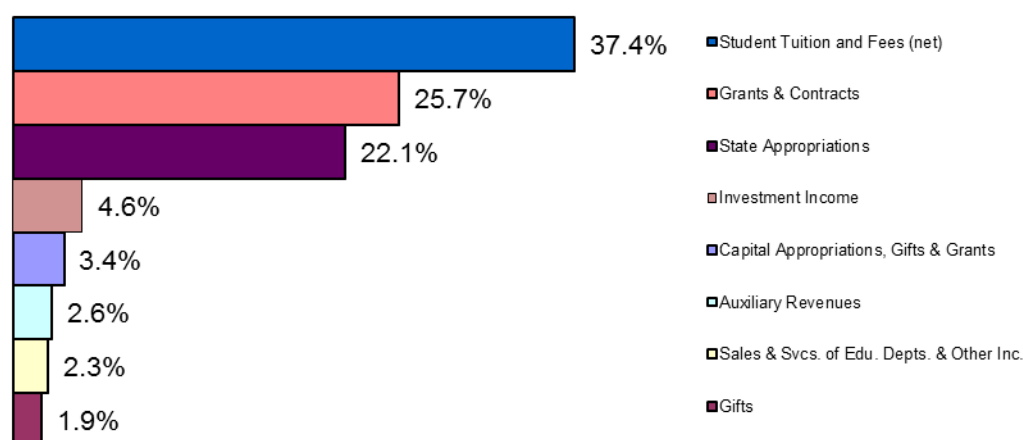
The table below depicts how declining state funding in the past three decades has forced universities to shift the burden for funding the cost of higher education to students and their families.

State Appropriations per Dollar of Gross Tuition

| Fiscal Year | Gross Tuition | State Appropriations net of OhioLINK | Net State Appropriations per Dollar of Gross Tuition |
|-------------|---------------|---|---|
| 1980 | \$ 13,833,157 | \$ 29,604,813 | \$ 2.14 |
| 1990 | 40,939,473 | 63,889,505 | 1.56 |
| 2001 | 74,956,371 | 86,874,854 | 1.16 |
| 2005 | 121,717,222 | 84,724,080 | 0.70 |
| 2010 | 161,383,354 | 97,498,261 | 0.60 |
| 2014 | 183,489,135 | 84,916,078 | 0.46 |

The table above communicates a very strong continuing trend that regardless of efforts and intentions on the part of the State, the University must find ways to generate substantial amounts of revenue from sources other than state appropriations if it wishes to lessen the financial burden that has been placed upon students and their families. State funding has not kept up with the growth and increased diversity of higher education. Universities are serving a broader role in the educational process not only providing academic programs but also an array of research, community engagement, job creation and additional activities. This has necessitated placing a greater share of the total costs of education on the students themselves over the years. In an attempt to reverse this trend the University continues to pursue supplements to its revenue sources. Research continues to be a focus, as does 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. This has been the case for at least the past decade. 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 three universities with lower tuition receive special state funding for the purpose of subsidizing tuition.

Below is a graphic illustration of revenues by source for the year ended June 30, 2014.



State appropriations decreased from \$88.9 million in 2013 to \$85.1 million in 2014, a decrease of \$3.8 million. OhioLINK appropriations decreased from \$6.1 million in 2013 to \$0.2 million in 2014. When accounting for the change in the OhioLINK funding, state appropriations actually increased \$2.1 million in

2014. The University does not expect any dramatic changes in the level of funding and is optimistic the recent changes in the method of allocation of state appropriations will provide some modest increase in funding in future years. State appropriations were \$89.6 million in 2012, resulting in a \$0.7 million decrease in 2013. After removing the effect of a \$0.4 million decrease in OhioLINK funding in 2013, there was a \$0.3 million decrease.

Student tuition and fees, net were \$144.2 million, \$142.5 million, and \$141.9 million, in 2014, 2013, and 2012, respectively which provided an increase of 1.2% from 2013 to 2014 and 0.4% from 2012 to 2013. In 2014, tuition increased 2.2% for all levels and for both campuses. Although net tuition – tuition and fee revenue, net of scholarship allowances (financial aid applied to students' bills) – increased 1.2% in 2014, tuition revenue before the application of scholarship was flat. Tuition revenue was relatively consistent between 2013 and 2014 despite the 2014 2.2% tuition increase because 2013 tuition revenue was magnified by summer term revenue recognized as a result of the conversion from quarters to semesters. In 2013, tuition increased 3.5% for all levels and for both campuses. However, due to a large decrease in student FTE, the gross tuition increase was only 1.6% before applying the scholarship allowance.

Grants and contracts were \$99.0 million in 2014, decreasing \$30.0 million from the 2013 level of \$129.0 million. The 2012 level was \$125.6 million. The \$30.0 million decrease resulted primarily from the transition of the OhioLINK program to The Ohio State University and reductions in the volume and amount of federal grants in 2014. The 2013 increase was primarily the result of increases related to OhioLINK and Wright State Applied Research Corporation.

Sales and services, which are primarily revenues generated from specific departmental sales activities to organizations external to the University, were \$5.9 million, \$6.4 million, and \$7.4 million, for the years ended June 30, 2014, 2013, and 2012, respectively. The largest portion of these revenues are clinical income and other services generated by the Boonshoft School of Medicine. Other revenue sources include conferences and events; printing and communication services; as well as computing and telecommunications. The \$0.5 million decrease in 2014 was led by a drop in conference and events income.

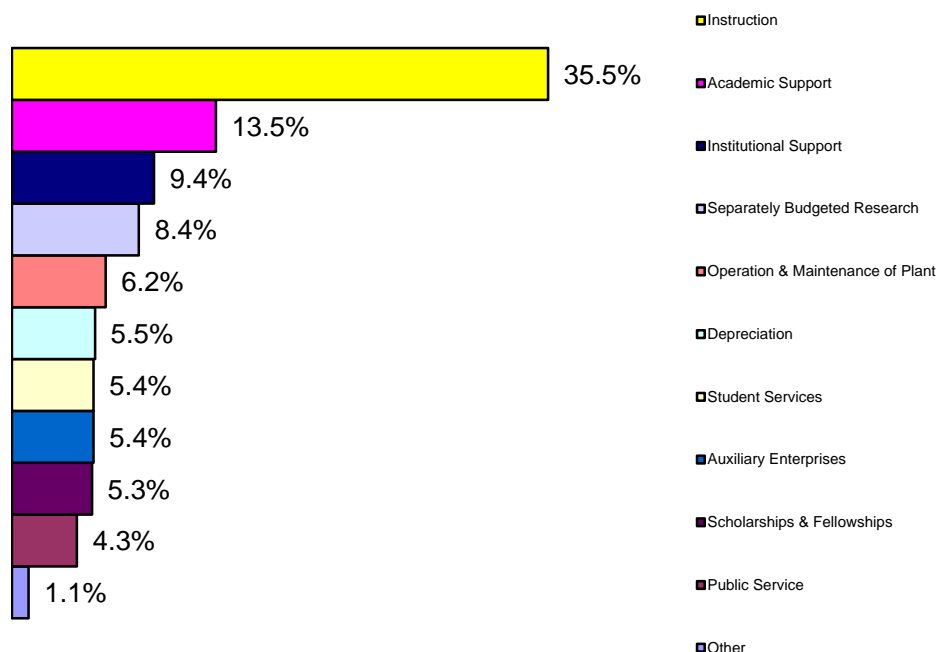
Auxiliary revenues were \$9.9 million, \$15.2 million, and \$16.3 million, for the years ended June 30, 2014, 2013, and 2012, respectively. Auxiliary enterprises are comprised of residence services, bookstores, hospitality (food) services, vending, parking and transportation, intercollegiate athletics, the Student Union, and the Nutter Center. During 2014, the University changed vendors and models for hospitality services. Previously food service revenue was recorded as direct sales; and now the University receives commission income from its hospitality service provider. The \$5.3 million decrease in revenues in 2014 occurred largely as a result of the change in the hospitality services model. Although sales revenues were lower, corresponding expenses related to hospitality services were also reduced by a comparable amount in 2014. The 2013 decline was primarily the impact of lower enrollment on hospitality services, residence services, vending and bookstore sales.

Investment income was \$17.6 million in 2014 and \$15.8 million in 2013 while an investment loss of \$0.2 million was recorded in 2012. Investment income in 2014 and 2013 exceeded budget by \$9.1 million and \$7.5 million, respectively. The investment markets were strong and the university's investment returns were consistent with performance benchmarks as defined by the university's Investment Policy Statement. While investment returns have been mixed in recent years, the University regularly reviews its investment policy and investigates ways to diversify risk and enhance returns. As a result of these endeavors, during 2012 and 2013 the University diversified its portfolio by placing a small share into private equity, commodity funds, and other diversifying strategies. During 2014, university management embarked on a process to evaluate a different investment model which delegates investment manager decisions to an investment advisor with the expectation the advisor will be able to react to market changes in a timelier manner in order to better capitalize on investment opportunities. The University plans to continue pressing for new opportunities for income generation, especially as the need for new revenue sources intensifies.

Capital Appropriations, Gifts and Grants were \$12.9 million in 2014, an increase of \$10.1 million from the \$2.8 million realized in 2013. The primary reasons for the 2014 increase were \$7.5 million State of Ohio capital appropriations for the construction of the NEC Building and a \$2.7 million gift of software for use by students in the classroom. Major gifts received in 2013 included contributions for the Medical Education

Skills Assessment Lab, Nischwitz Stadium baseball FieldTurf®, Schuster Concert Hall renovation, and the Fritz and Delores Russ Engineering Center atrium renovation.

The following is a graphic illustration of expenses by function for the year ended June 30, 2014.



Total operating expenses were \$384.2 million in 2014 as compared to \$414.5 million in 2013 and \$402.3 million in 2012. The \$30.3 million decrease in 2014 represents a 7.3% decrease in operating expenses. The transition of OhioLINK accounts for \$26.1 million of the 2014 decrease. Additionally, the previously mentioned change to hospitality services resulted in a \$5.3 million reduction in operating expenses. Salaries and benefits continue to represent the largest portion of operating costs for the University. Salaries and benefits were 65.9% of total operating expenses in 2014 as compared to 60.5% and 61.0% in 2013 and 2012, respectively. Although salaries and benefits as a percentage of total operating expenses increased due to decreased total operating expenses, the \$2.5 million increase from 2013 to 2014 represented only a 1.0% increase. Relative low wage increases and continued efforts in strategic hiring which critically reviews vacant positions before hiring replacements enabled the University to curtail salaries and benefits expense. During 2014, the University continued expense optimization efforts in the areas of energy conservation, health and wellness initiatives, an enterprise print management solution, and strategic contract management. The increase in operating expenses from 2012 to 2013 was \$12.2 million with \$5.4 million of the increase attributable to salaries and benefits, \$1.4 million related to the return of federal loan funds representing a deliberate decision to reduce participation in the program, and the remaining \$5.4 million attributable to other operating expenses.

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, 2014.

A summary of the Statements of Cash Flows is as follows:

| | 2014 | 2013 | 2012 |
|---|-----------------------------------|--------------|--------------|
| | (All dollar amounts in thousands) | | |
| Cash provided (used) by: | | | |
| Operating activities | \$ (123,658) | \$ (145,633) | \$ (121,065) |
| Noncapital financing activities | 118,003 | 124,389 | 127,213 |
| Capital and related financing activities | (45,683) | 11,280 | 30,981 |
| Investing activities | 73,683 | 12,364 | (44,763) |
| Net increase (decrease) in cash and cash | 22,345 | 2,400 | (7,634) |
| Cash and cash equivalents-beginning of year | 22,011 | 19,611 | 27,245 |
| Cash and cash equivalents-end of year | \$ 44,356 | \$ 22,011 | \$ 19,611 |

Total cash and cash equivalents increased \$22.3 million in 2014. Net cash used by operating activities decreased \$22.0 million from 2013. In addition to affecting other areas of the university's financial statements, the OhioLINK transition had a significant impact on the university's cash flows for 2014. This can be seen in lower cash inflows from operating contracts and lower cash outflows in payments to suppliers. Cash inflows from tuition and fees increased \$6.8 million in part due to lower student account receivables. Cash outflows for salaries and benefits fell \$4.1 million. Cash inflows from auxiliary sales fell \$5.4 million largely as a result of the changes in the hospitality services contract. These factors combined with increased cash inflows from sales and services resulting from a decrease in receivables to create the decrease in cash used by operating activities. Cash from noncapital financing activities decreased \$6.4 million primarily as a result of the reduced state appropriations and noncapital grants. While in 2013 capital and related financing activities provided cash inflow of \$11.3 million, in 2014 these activities resulted in a cash outflow of \$45.7 million. This \$57.0 million dollar fluctuation occurred because the University did not issue new debt in 2014 (lowering inflows) and it increased purchases of capital assets (increasing cash outflows). Although a \$1.7 million increase in investment income was recorded from 2013 to 2014, the \$61.3 million increase in net cash provided by investing activities from 2013 to 2014 is predominantly related to transactions involving debt proceeds. In 2013, the University used debt proceeds to purchase investments placed in trust to fund future project spending. In 2014, these investments matured and were converted to cash for reimbursement of project spending either in 2014 or the near future. The \$2.4 million decrease of cash and cash equivalents from 2012 to 2013 was a combination of a decrease in contracts and grants revenue and an increase in operating expenditures which was somewhat offset by new debt agreements net of refundings.

Capital Assets and Debt

Capital Assets

The University had approximately \$332.9 million invested in capital assets, net of accumulated depreciation of \$282.2 million at June 30, 2014. Capital assets were \$305.0 million, net of accumulated depreciation of \$263.6 million at June 30, 2013. Depreciation expense for the years ended June 30, 2014 and 2013 was \$21.5 million and \$21.4 million, respectively.

A summary of net capital assets for the year ended June 30 is as follows:

| | 2014 | 2013 | 2012 |
|--|-----------------------------------|-------------------|-------------------|
| | (All dollar amounts in thousands) | | |
| Land, land improvements and infrastructure | \$ 42,267 | \$ 35,916 | \$ 32,508 |
| Buildings | 223,972 | 224,384 | 227,314 |
| Machinery and equipment | 20,797 | 22,335 | 29,156 |
| Library books and publications | 16,545 | 17,014 | 17,597 |
| Construction in progress | 29,316 | 5,375 | 2,915 |
| Total capital assets - net | <u>\$ 332,897</u> | <u>\$ 305,024</u> | <u>\$ 309,490</u> |

The university's Dayton campus was affected by a large volume of capital projects – new construction and renovations - during 2014. The second phase of the energy efficiency project continued resulting in \$7.6 million of capitalized land, land improvements, and infrastructure, \$3.6 million of capitalized building improvements (included in buildings above), and \$4.6 million recorded as construction in progress. Construction on the NEC Building and the new classroom building, both of which were started in 2013, continued in 2014 resulting in increases to construction in process of \$14.3 million and \$5.5 million, respectively. Building improvements of \$1.1 million were recorded for completion of the renovations in Student Union for RaiderConnect, the new primary place for students to receive enrollment services. Renovations of \$1.6 million (included in buildings above) were also made in various meal and beverage venues as the University transitioned hospitality services during 2014. Additionally, efforts were initiated on the expansion of the Creative Arts Center and construction of the Woods Commons Building, a space centered on student activities. The University also capitalized \$2.7 million of software donated for student classroom use. Major capital activity in 2013 included \$4.8 million related to land, land improvements, and infrastructure related to replacement of main water lines and the energy conservation project and \$2.7 million of construction in process for the NEC and classroom buildings.

Debt

The University did not enter into any new debt agreements during 2014. Furthermore, the University has no current plans to initiate any new debt in the foreseeable future. Instead, the focus is on completing projects funded by the previous three debt agreements.

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 the NEC Building, 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. All of these projects have been completed except for the construction of the NEC and classroom buildings and the expansion of the Creative Arts Center. As of June 30, 2014 and 2013, \$29.6 million and \$42.2 million, respectively, of bond proceeds and premiums remain unspent and available for funding these projects. Series 2011B 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 average coupon rate of the Series A bonds is 4.82%, but the effective interest rate is only 4.13%.

In November 2012, the University issued \$23.2 million in General Receipts bonds which were sold at a premium of \$2.1 million. These bonds have an effective interest rate of 2.87% and consist of \$21.4 million serial bonds and a \$1.8 million term bond. Of the total bonds, \$9.0 million were issued to pay the associated bond issuance costs and to finance construction of a student academic success center to be located within a new classroom building, a new multi-functional student commons building, and relocation of a grounds storage facility. As of June 30, 2014 and 2013 unspent bond proceeds and premiums provide a balance of \$9.8 million of funding for these projects. The remaining \$14.2 million Series 2012 bonds were issued as an advance refunding of \$14.4 million outstanding Series 2004 General Receipts serial and term bonds.

The advance refunding resulted in an economic gain to the University of \$1.3 million and a savings of \$1.6 million in debt service payments.

In February 2013, the University entered into a \$25.5 million Loan Agreement with the Ohio Air Quality Development Authority to fund the second phase of an energy conservation project. This debt was issued as a Series A note backed by a \$17.2 million tax exempt revenue bond and a Series B note backed by an \$8.3 million tax exempt revenue bond (QECB). The Series A note carries an interest rate of 1.78% and the Series B note carries an interest rate of 4.16%. The QECB qualifies for a large federal rebate that brings the effective interest rate down to .94%. The weighted average interest rate of the entire \$25.5 million Loan Agreement is 1.51%. Wright State expects to reduce energy consumption by nearly 40 percent through the funded energy efficiency investments that include applying state-of-the-art technology to modernize heating/cooling plants in buildings across its Dayton and Celina campuses. The project promises to save the University over \$35 million over a 15 year period which well exceeds the debt service on the notes. As of June 30, 2014 and 2013, \$4.8 million and \$21.7 million, respectively, is available for funding of this project.

Outstanding debt was \$106.8 million, \$114.4 million, and \$84.4 million at June 30, 2014, 2013, and 2012, respectively. The 2014 balance of \$106.8 million includes \$82.7 million of outstanding bonds, \$24.0 million of outstanding notes, and \$0.1 million of equipment leases. The 2013 balance of \$114.4 million includes \$88.7 million of outstanding bonds, \$25.5 million of outstanding notes and equipment leases of \$0.2 million. The University maintains a debt rating from Moody's Investors Service of A1.

Concluding Thoughts

Wright State concluded its 2008-2013 strategic plan and began its new 2013-2018 strategic plan "Empower" during 2014. While the former strategic plan was considered a success, the new plan has many of the same tenants embedded in it: academic quality, student success and educational attainment, research and innovation, community and economic development, program distinctiveness and development and maintenance of essential resources. This commonality of goals indicates that while the university's basic mission has not changed, it has become more challenging and complex to meet that mission as time passes. One ongoing challenge is the financial burden higher education places upon students and their families. Although the University does everything in its power to contain that cost each year, it becomes increasingly difficult. Students continue to take on mounting amounts of student debt even though tuition increases have been fairly moderate in recent years. The disproportionate share of the total cost of education assumed by students as compared to that borne by the State continues. Although the new funding formula for state subsidy places a greater emphasis on student success by rewarding institutions for successful course and degree completions, the total funding available on a state level remains fairly constant. Nonetheless, the University will continue to help each one of its students succeed both academically and in their professional work lives.

The University continues its efforts to increase enrollment. While overall headcount fell slightly in 2014 from 2013, the mix of enrollment shifted such that revenue did not fall. The enrollment initiatives focused on growing our international and graduate enrollment were highly successful in 2014, allowing the University to enjoy tuition revenue levels equal to that of 2013. Furthermore, the Enrollment Management division has been transformed to drive increasing enrollments in additional segments of the student population such as direct from high school and transfer students.

Another area of focus for the University is research and innovation. Along that front, a growing operation of the University has been the Wright State Research Institute (WSRI). WSRI has been establishing and increasing its portfolio in the past few years and supporting the university's strategic plan in a number of ways. For instance, it is partnering with the Air Force, a local health care organization, and a regional consortium of companies to solve human performance challenges in the areas of neuroscience and medical imaging, intelligence analyst performance, autonomous systems, and other domains. It has worked with other institutions to build an aerospace curriculum that links education and training, research, technology commercialization, and job creation. Lastly, it supported the Wright Scholar Program by providing paid and unpaid internships for high school students conducting summer research with Air Force Lab mentors. These types of activities directly support our mission and are critical to both the students and the community.

The ability to conduct the aforementioned activities has to be financially supportable. The University continues to aggressively address its financial challenges. We continue to undergo expense optimization efforts in an attempt to squeeze as much of the expense budget as possible. The second phase of our energy conservation measures continued in 2014 and are now almost complete. We adopted an enterprise print model which will be more fully adopted in 2015. This includes a shared services model with sister institutions whereby a contracted print operation on Wright State's campus will serve the needs of the University and other regional colleges and universities at a reduced cost. Another shared services implementation will be a salt storage barn on the university's campus which will be operated by the Ohio Department of Transportation (ODOT). The University and two local municipalities will obtain their salt on an as needed basis from ODOT. This provides for more efficiency across the region as well as reduced costs for all organizations involved. The University changed its model for investment advisory services for its investment portfolio in an attempt to take advantage of market opportunities and potentially enhance returns. We continue to work on reforming and improving our health care plans. Each year we work with our third party consultant and with faculty and staff to review trends, costs, market data, plan design, etc. in order to better optimize the plans and to keep them in line with industry trends. Continued monitoring and modifications to plans will be necessary, especially considering all of the current uncertainty and change in the health care marketplace caused by federal reform and its impacts. Lastly, the University will be implementing a new resource allocation model in 2015 to better support our entrepreneurial thinking as we move forward. We can no longer rely upon the traditional methods of performing and conducting business in order to survive and progress as an organization.

While the challenges never cease, the University is committed to moving forward in support of our students and communities. The financial challenges are daunting, but the rewards of our success cannot be measured. It is with this in mind that we continue our efforts.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Wright State University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

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 of the University and its discretely presented component unit, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 2 to 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated the same date as this report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Crowe Horwath LLP

Columbus, Ohio
October 14, 2014

WRIGHT STATE UNIVERSITY
Statements of Net Position
June 30, 2014 and 2013

| | 2014 | | 2013 | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>University</u> | <u>Foundation</u> | <u>University</u> | <u>Foundation</u> |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 13,925,525 | \$ 3,273,096 | \$ 14,776,145 | \$ 1,236,709 |
| Restricted cash and cash equivalents | 30,430,111 | | 7,234,740 | |
| Short-term investments | 1,950,428 | | 926,802 | |
| Restricted short-term investments | 13,754,172 | | 54,660,852 | |
| Accounts receivable (net of allowance for doubtful accounts of \$1,756,000 in 2014 and \$1,715,000 in 2013 - Note 3) | 36,108,940 | 212,022 | 35,264,457 | 200,831 |
| Gifts and pledges receivable (net of allowance for uncollectible pledges of \$800 in 2014 and in 2013) | | 1,871,225 | | 2,456,761 |
| Loans receivable (net of allowance for doubtful loans of \$3,460,000 in 2014 and \$3,041,000 in 2013) | 4,580,948 | | 4,740,916 | |
| Inventories | 237,588 | | 342,786 | |
| Prepaid expenses | 668,848 | | 12,391,660 | |
| Advanced charges | 4,093,334 | | 2,911,187 | |
| Total current assets | <u>105,749,894</u> | <u>5,356,343</u> | <u>133,249,545</u> | <u>3,894,301</u> |
| Noncurrent assets: | | | | |
| Restricted investments | | | 11,718,652 | |
| Gifts and pledges receivable (net of allowance for uncollectible pledges of \$66,500 in 2014 and \$55,100 in 2013) | | 5,895,175 | | 4,637,839 |
| Loans receivable (net of allowance for doubtful loans of \$115,000 in 2014 and \$122,000 in 2013) | 11,408,770 | | 12,038,922 | |
| Other assets | 136,000 | 641,594 | 545,518 | 510,296 |
| Other long-term investments | 120,190,660 | 120,150,869 | 124,626,307 | 109,359,096 |
| Capital assets, net (Note 4) | <u>332,897,094</u> | <u>2,674,455</u> | <u>305,023,880</u> | <u>1,482,267</u> |
| Total noncurrent assets | <u>464,632,524</u> | <u>129,362,093</u> | <u>453,953,279</u> | <u>115,989,498</u> |
| Total assets | <u>570,382,418</u> | <u>134,718,436</u> | <u>587,202,824</u> | <u>119,883,799</u> |
| Deferred outflows of resources | 442,608 | | 472,115 | |
| Total assets and deferred outflows of resources | \$ <u>570,825,026</u> | \$ <u>134,718,436</u> | \$ <u>587,674,939</u> | \$ <u>119,883,799</u> |
| Current liabilities: | | | | |
| Accounts payable trade and other | \$ 16,931,396 | \$ 274,824 | \$ 13,177,434 | \$ 293,396 |
| Accounts payable to Wright State University | | 1,115,440 | | 791,698 |
| Accrued liabilities | 14,220,340 | | 13,475,796 | |
| Unearned revenue (Note 1) | 23,903,594 | | 35,412,568 | |
| Refunds and other liabilities | 740,393 | 1,997,880 | 967,957 | 1,912,842 |
| Current portion of long-term liabilities (Note 5) | 12,837,028 | 1,021,108 | 13,634,573 | 817,008 |
| Total current liabilities | <u>68,632,751</u> | <u>4,409,252</u> | <u>76,668,328</u> | <u>3,814,944</u> |
| Noncurrent liabilities: | | | | |
| Unearned revenue (Note 1) | 1,691,915 | | | |
| Long-term liabilities (Note 5) | <u>110,532,140</u> | <u>329,792</u> | <u>117,767,469</u> | <u>113,892</u> |
| Total noncurrent liabilities | <u>112,224,055</u> | <u>329,792</u> | <u>117,767,469</u> | <u>113,892</u> |
| Total liabilities | <u>180,856,806</u> | <u>4,739,044</u> | <u>194,435,797</u> | <u>3,928,836</u> |
| Net Position: | | | | |
| Net investment in capital | 270,843,590 | 1,674,455 | 265,312,477 | |
| Restricted - nonexpendable: | | | | |
| Instruction and departmental research | | 13,994,302 | | 13,943,786 |
| Separately budgeted research | | 8,344,144 | | 6,431,585 |
| Public service | | 194,567 | | 185,696 |
| Academic support | | 696,840 | | 622,618 |
| Student services | | 125,855 | | 87,371 |
| Operation and maintenance of plant | | 1,247,294 | | 528,736 |
| Scholarships and fellowships | | 16,598,338 | | 15,682,537 |
| Auxiliaries | | 259,988 | | 259,835 |
| Restricted - expendable: | | | | |
| Instruction and departmental research | 8,054 | 26,768,604 | 8,040 | 24,092,242 |
| Separately budgeted research | | 4,159,243 | | 3,335,719 |
| Public service | | 740,506 | | 564,104 |
| Academic support | | 15,246,663 | | 14,068,649 |
| Student services | | 341,904 | | 295,601 |
| Institutional support | | 7,754,591 | | 6,908,858 |
| Operation and maintenance of plant | | 1,196,143 | | 1,212,700 |
| Scholarships and fellowships | | 22,785,041 | | 20,179,228 |
| Loans | 17,342,965 | | 17,739,142 | |
| Auxiliaries | | 207,133 | | 191,308 |
| Unrestricted | <u>101,773,611</u> | <u>7,643,781</u> | <u>110,179,483</u> | <u>7,364,390</u> |
| Total net position | <u>389,968,220</u> | <u>129,979,392</u> | <u>393,239,142</u> | <u>115,954,963</u> |
| Total liabilities and net position | \$ <u>570,825,026</u> | \$ <u>134,718,436</u> | \$ <u>587,674,939</u> | \$ <u>119,883,799</u> |

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

| | 2014 | | 2013 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>University</u> | <u>Foundation</u> | <u>University</u> | <u>Foundation</u> |
| OPERATING REVENUES | | | | |
| Student tuition and fees (net of scholarship allowances of \$39,258,000 in 2014 and \$40,992,000 in 2013) | \$ 144,231,135 | \$ | \$ 142,513,881 | \$ |
| Federal grants and contracts | 29,312,603 | | 35,607,915 | |
| State grants and contracts | 6,249,209 | | 7,049,094 | |
| Local grants and contracts | 347,075 | | 316,421 | |
| Nongovernmental grants and contracts | 37,006,335 | | 56,166,131 | |
| Sales and services | 5,883,282 | | 6,387,417 | |
| Auxiliary enterprises sales (net of scholarship allowances of \$1,958,000 in 2014 and \$1,961,000 in 2013) | 9,914,712 | | 15,165,271 | |
| Gifts and contributions | | 9,487,402 | | 7,288,695 |
| Other operating revenues | 2,939,971 | | 2,414,955 | |
| Total operating revenues | 235,884,322 | 9,487,402 | 265,621,085 | 7,288,695 |
| OPERATING EXPENSES | | | | |
| Educational and general: | | | | |
| Instruction and departmental research | 138,327,312 | | 137,825,680 | |
| Separately budgeted research | 32,452,899 | | 32,378,563 | |
| Public service | 16,547,495 | | 16,340,922 | |
| Academic support | 52,294,198 | | 80,811,381 | |
| Student services | 21,018,558 | | 19,278,178 | |
| Institutional support | 36,341,106 | 678,448 | 33,916,434 | 190,931 |
| Operation and maintenance of plant | 23,953,747 | | 23,836,186 | |
| Scholarships and fellowships | 20,714,859 | | 22,301,170 | |
| Total educational and general | 341,650,174 | 678,448 | 366,688,514 | 190,931 |
| Auxiliary enterprises | 21,052,874 | | 26,363,074 | |
| Depreciation | 21,479,211 | 67,842 | 21,421,353 | 9,399 |
| Total operating expenses | 384,182,259 | 746,290 | 414,472,941 | 200,330 |
| Operating income/(loss) | (148,297,937) | 8,741,112 | (148,851,856) | 7,088,365 |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| State appropriations | 85,147,583 | | 88,941,387 | |
| Federal grants | 22,701,440 | | 26,519,530 | |
| State grants | 3,419,479 | | 3,377,969 | |
| Gifts | 7,351,158 | | 6,687,203 | |
| Investment income (net of investment expenses of \$201,000 in 2014 and \$131,000 in 2013 for WSU and \$702,031 in 2014 and \$590,377 in 2013 for Foundation) | 17,550,178 | 13,311,050 | 15,781,049 | 9,864,737 |
| Interest on capital asset-related debt | (3,401,986) | | (3,723,349) | |
| Payments to Wright State University | | (8,027,733) | | (8,014,047) |
| Other nonoperating (expenses) | (690,272) | | (423,714) | |
| Net nonoperating revenues | 132,077,580 | 5,283,317 | 137,160,075 | 1,850,690 |
| Gain/(loss) before other revenues, expenses, gains or losses | (16,220,357) | 14,024,429 | (11,691,781) | 8,939,055 |
| Capital appropriations from the State of Ohio | 8,319,099 | | 820,855 | |
| Capital grants and gifts | 4,630,336 | | 1,985,914 | |
| Increase/(decrease) in net position | (3,270,922) | 14,024,429 | (8,885,012) | 8,939,055 |
| NET POSITION | | | | |
| Net position - beginning of year, as restated | 393,239,142 | 115,954,963 | 402,124,154 | 107,015,908 |
| Net position - end of year | \$ 389,968,220 | \$ 129,979,392 | \$ 393,239,142 | \$ 115,954,963 |

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

| CASH FLOWS FROM OPERATING ACTIVITIES | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Student tuition and fees | \$ 148,263,785 | \$ 141,399,754 |
| Federal, state, local, and nongovernmental grants and contracts | 59,416,286 | 87,993,189 |
| Sales and services of educational and other departmental activities | 8,117,770 | 3,046,007 |
| Payments to employees | (195,714,612) | (201,159,361) |
| Payments for benefits | (57,395,869) | (56,043,580) |
| Payments to suppliers | (75,217,329) | (115,585,230) |
| Payments for scholarships and fellowships | (22,107,393) | (20,782,640) |
| Student loans issued | (2,671,127) | (3,234,138) |
| Student loans collected | 3,461,247 | 3,225,406 |
| Student loan interest and fees collected | 442,575 | 403,097 |
| Auxiliary enterprise sales | 9,746,545 | 15,104,185 |
| Net cash (used) by operating activities | (123,658,122) | (145,633,311) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 85,147,583 | 88,941,387 |
| Direct lending receipts | 103,882,964 | 113,693,772 |
| Direct lending disbursements | (103,943,229) | (115,085,894) |
| Grants for noncapital purposes | 26,120,919 | 29,897,499 |
| Gifts | 6,794,560 | 6,941,956 |
| Net cash provided by noncapital financing activities | 118,002,797 | 124,388,720 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital appropriations from the State of Ohio | 3,473,531 | 1,050,912 |
| Capital grants and gifts received | 1,872,911 | 1,985,914 |
| Purchases of capital assets | (40,361,545) | (17,368,444) |
| Sales of capital assets | 12,937 | 93,268 |
| Proceeds from capital debt | | 34,974,393 |
| Principal paid on capital debt and leases | (7,274,926) | (5,647,492) |
| Interest paid on capital debt and leases | (3,759,934) | (3,976,587) |
| Bond interest subsidy | 354,544 | 167,909 |
| Net cash (used)/provided by capital and related financing activities | (45,682,482) | 11,279,873 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 105,072,232 | 90,107,367 |
| Interest on investments | 11,940,513 | 10,824,671 |
| Purchase of investments | (43,330,187) | (88,567,460) |
| Net cash provided by investing activities | 73,682,558 | 12,364,578 |
| Net Increase in Cash and Cash Equivalents | 22,344,751 | 2,399,860 |
| Cash and Cash Equivalents - Beginning of Year | 22,010,885 | 19,611,025 |
| Cash and Cash Equivalents - End of Year | \$ 44,355,636 | \$ 22,010,885 |

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

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

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------------|--------------------------------|
| Operating loss | \$ (148,297,937) | \$ (148,851,856) |
| Depreciation and amortization | 21,297,229 | 21,421,353 |
| Provision for doubtful accounts | 1,095,172 | 1,066,793 |
| Provision for doubtful loans | 535,556 | 535,556 |
| Other | 353,660 | |
| Changes in assets and liabilities: | | |
| Accounts receivable | 3,426,506 | (13,026,881) |
| Inventory | 105,198 | 96,060 |
| Prepaid expenses | 11,749,657 | 1,433,202 |
| Advanced charges | (1,182,147) | 1,863,176 |
| Other assets | 409,518 | (394,143) |
| Accounts payable | (1,801,615) | 263,197 |
| Accrued liabilities | 744,544 | (6,413,332) |
| Unearned revenue | (11,720,463) | (3,534,939) |
| Compensated absences | (400,000) | 200,000 |
| Refunds and other liabilities | (227,564) | 252,791 |
| Loans to students and employees | 254,564 | (544,288) |
| Net cash (used) by operating activities | \$ <u>(123,658,122)</u> | \$ <u>(145,633,311)</u> |

Noncash Transactions:

| | | |
|----------------------------|----------------------------|-----------------------------|
| Bond Defeasance | \$ | 15,430,055 |
| Donated Capital Assets | <u>4,872,318</u> | |
| Total Noncash Transactions | \$ <u>4,872,318</u> | \$ <u>15,430,055</u> |

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY

Notes to Financial Statements

Year Ended June 30, 2014 and 2013

(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 18,000 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 Nos. 39 and 61. These statements provide 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 Bldg., 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)

New Accounting Standards Adopted

In fiscal year 2014, the University adopted new accounting standard GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. In addition, the new reporting standards recognize certain items that were previously reported as assets and liabilities, as outflows of resources (expenses) or inflows of resources (revenues).

The principal effect to the University of the adoption of GASB No. 65 resulted in the expensing of debt issuance costs. The University has reflected this accounting change retroactively as required by the standard. The effect of this change on unrestricted net position of the University is as follows:

| | <u>2013</u> |
|--|-----------------------|
| Net position - beginning of year, as originally reported | \$ 402,549,956 |
| Effect of adoption of GASB 65 | <u>(425,802)</u> |
| Net position - beginning of year, as restated | <u>\$ 402,124,154</u> |

The effect of this change on the 2013 Statement of Changes in Revenue, Expenses and Net Position was an increase of \$374,693 in other nonoperating expense and a corresponding decrease in the 2013 change in net position.

In addition, the University has reclassified the deferred losses on debt refunding of \$472,115 at June 30, 2013 from advanced charges and other assets to a deferred outflow of resources as required by GASB No. 65 with a corresponding reclassification of net position from restricted debt service to net investment in capital.

Net position

Net Position in Capital is classified as follows:

- Net investment in capital assets comprises total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets or related debt.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflow of resources related to those assets.
 - Nonexpendable restricted net position 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.
 - Expendable restricted net position represents resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties such as guarantors.
- Unrestricted net position represents the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital or the restricted component of net position. These net assets 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.

Wright State University

Notes to Financial Statements
(Continued)

Recent Accounting Pronouncement

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 is in the process of determining the effect this statement will have on the university's financial statements. Although the details of the effect are not yet determined, the impact on the university's financial statements is anticipated to be significant.

Cash and Cash Equivalents

Cash and cash equivalents include amounts held in the State Treasury Asset Reserve of Ohio (STAROhio). In addition, several of the external investment managers maintain balances 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 of publically traded securities 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.

Alternative investments are carried at estimated fair value provided by the fund's management. Alternative investments are generally less liquid than publically traded securities and include private equity, investments in real assets, and other strategies. These alternative investments are intended to reduce market risk, credit risk and interest rate risk. The University believes the carrying amounts of these holdings are reasonable estimates of the fair values as of year-end. Because these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investment existed. Such difference could be material.

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

Wright State University

Notes to Financial Statements (Continued)

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.

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.

Unearned Revenue

Unearned 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 amounts were \$8.2 million and \$14.4 million, respectively, for the year ended June 30, 2014 and \$19.8 million and \$14.8 million, respectively, for the year ended June 30, 2013.

Deferred Outflows and Inflows of Resources

Deferred outflows represent the consumption of resources that are applicable to a future reporting period, but do not require any further exchange of goods or services. Deferred outflows of resources in the University's financial statements consist of the unamortized deferred refunding balance.

Revenues and Expenses

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

OhioLINK

Wright State University had served as the fiscal agent for the statewide library program known as OhioLINK for over two decades. As a result of actions taken by the State of Ohio to streamline operations and improve efficiency, OhioLINK was consolidated into the Ohio Technology Consortium (OH-TEC) during the year ended June 30, 2014. The Ohio State University was named the new fiscal agent for OhioLINK. All of OhioLINK's assets, liabilities, revenues and expenses for fiscal year ended June 30, 2013 are included in the university's financial statements. However, as a result of the transition, only a portion of OhioLINK's revenues and expenses and none of its assets or liabilities for fiscal year ended June 30, 2014 are included in the university's financial statements. As a result of this transition, the university's revenues and expenses as well as assets and liabilities declined in 2014.

Wright State University

Notes to Financial Statements (Continued)

The areas of substantial impact on the university's Statement of Net Position as of June 30th are as follows:

| | <u>2014</u> | <u>2013</u> |
|---------------------------|---------------------------------------|-----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ | \$ 2,302,838 |
| Prepaid expenses | | <u>11,624,583</u> |
| Total | \$ <u><u> </u></u> | \$ <u><u>13,927,421</u></u> |
| Current liabilities: | | |
| Unearned revenue | \$ <u><u> </u></u> | \$ <u><u>13,360,755</u></u> |

OhioLINK's impact on the university's Statement of Revenues, Expenses and Changes in Net Position for fiscal years ended June 30 is as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|-----------------------------|-----------------------------|
| Revenues: | | |
| Nongovernmental grants and contracts | \$ 11,700,414 | \$ 31,987,124 |
| State appropriations | <u>231,505</u> | <u>6,086,889</u> |
| Total | \$ <u><u>11,931,919</u></u> | \$ <u><u>38,074,013</u></u> |
| Expenses: | | |
| Academic support | \$ <u><u>11,931,919</u></u> | \$ <u><u>38,074,013</u></u> |

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.

Wright State University

Notes to Financial Statements
(Continued)

(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 position. 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.

As of June 30, 2014 and 2013, the university's bank balances are \$48,160,756 and \$24,318,877, respectively. Of these balances, \$45,818,924 and \$20,534,845, 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:

| | 2014 | 2013 |
|--------------------|----------------------|----------------------|
| Petty cash | \$ 48,181 | \$ 41,636 |
| Demand deposits | 43,396,269 | 19,541,179 |
| Money market funds | 769,988 | 2,287,242 |
| Total | <u>\$ 44,214,438</u> | <u>\$ 21,870,057</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.

Wright State University

Notes to Financial Statements
(Continued)

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

| Description | Fair Value | |
|---|-----------------------|-----------------------|
| | 2014 | 2013 |
| U.S. Treasury securities | \$ 3,270,857 | \$ 4,984,713 |
| U.S. Agency securities | 15,181,452 | 59,923,465 |
| Stock and traded securities | 717,447 | 618,405 |
| Corporate bonds and notes | 5,483,742 | 5,161,567 |
| State Treasury Asset Reserve of Ohio | 141,198 | 140,828 |
| Private equity and Limited Partnerships | 15,059,286 | 12,645,363 |
| Equity funds | 62,418,850 | 71,278,094 |
| Bond funds | 31,209,264 | 28,480,344 |
| Negotiable Certificates of Deposit | 2,551,162 | 8,837,462 |
| Other | 3,200 | 3,200 |
| Total | <u>\$ 136,036,458</u> | <u>\$ 192,073,441</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 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, 2014 and 2013, the University has an outstanding commitment of \$3,050,000 and \$4,000,000, respectively.

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 | 2014 Investment Maturities (in years) | | | | |
|------------------------------------|---------------------------------------|----------------------|----------------------|----------------------|-------------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. Treasury securities | \$ 3,270,857 | \$ 416,400 | \$ 2,854,457 | \$ | \$ |
| U.S. Agency securities | 15,181,452 | 11,203,159 | 2,601,079 | 1,104,387 | 272,827 |
| Corporate bonds and notes | 5,483,742 | 208,903 | 4,672,933 | 137,949 | 463,957 |
| Bond funds | 31,209,264 | 1,324,975 | 16,170,157 | 13,714,132 | |
| Negotiable Certificates of Deposit | 2,551,162 | 2,551,162 | | | |
| Total | <u>\$ 57,696,477</u> | <u>\$ 15,704,599</u> | <u>\$ 26,298,626</u> | <u>\$ 14,956,468</u> | <u>\$ 736,784</u> |

| Investment Type | 2013 Investment Maturities (in years) | | | | |
|------------------------------------|---------------------------------------|----------------------|----------------------|----------------------|-------------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. Treasury securities | \$ 4,984,713 | \$ 2,132,155 | \$ 2,852,558 | \$ | \$ |
| U.S. Agency securities | 59,923,465 | 46,370,757 | 12,224,495 | 1,110,178 | 218,035 |
| Corporate bonds and notes | 5,161,567 | 96,942 | 4,529,647 | 33,030 | 501,948 |
| Bond funds | 28,480,344 | 698,885 | 13,035,828 | 14,745,631 | |
| Negotiable Certificates of Deposit | 8,837,462 | 6,288,915 | 2,548,547 | | |
| Total | <u>\$ 107,387,551</u> | <u>\$ 55,587,654</u> | <u>\$ 35,191,075</u> | <u>\$ 15,888,839</u> | <u>\$ 719,983</u> |

The University invests in mortgage pass-through securities issued by FNMA, GNMA, FHLMC and commercial banking organizations which are included above in the amounts listed as U.S. Agency securities and Corporate bonds and notes. 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, 2014 and 2013, the total value of mortgage pass-through securities is \$2,371,908 and \$1,799,068, 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/P1.

Wright State University

Notes to Financial Statements
(Continued)

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

| Investment Type | Total | 2014 Credit Ratings | | A | BBB/Baa | Not Rated |
|---|---------------|---------------------|---------------|---------------|--------------|--------------|
| | | AAA/Aaa | AA/Aa | | | |
| U.S. Treasury securities | \$ 3,270,857 | \$ | \$ 3,270,857 | \$ | \$ | \$ |
| U.S. Agency securities | 15,181,452 | | 15,181,452 | | | |
| Corporate Bonds and notes | 5,483,742 | 1,487,134 | 1,045,308 | 1,695,878 | 1,255,422 | |
| State Treasury Asset Reserve (STAROhio) | 141,198 | 141,198 | | | | |
| Bond funds | 31,209,264 | | 11,143,771 | 17,034,507 | 3,030,986 | |
| Negotiable Certificates of Deposit | 2,551,162 | | | | | 2,551,162 |
| Total | \$ 57,837,675 | \$ 1,628,332 | \$ 30,641,388 | \$ 18,730,385 | \$ 4,286,408 | \$ 2,551,162 |

| Investment Type | Total | 2013 Credit Ratings | | A | BBB/Baa | Not Rated |
|---|----------------|---------------------|---------------|--------------|--------------|--------------|
| | | AAA/Aaa | AA/Aa | | | |
| U.S. Treasury securities | \$ 4,984,713 | \$ | \$ 4,984,713 | \$ | \$ | \$ |
| U.S. Agency securities | 59,923,465 | | 59,923,465 | | | |
| Corporate Bonds and notes | 5,161,567 | 1,255,192 | 1,023,299 | 1,991,301 | 891,775 | |
| State Treasury Asset Reserve (STAROhio) | 140,828 | 140,828 | | | | |
| Bond funds | 28,480,344 | | 17,322,981 | 3,141,031 | 8,016,332 | |
| Negotiable Certificates of Deposit | 8,837,462 | | | | | 8,837,462 |
| Total | \$ 107,528,379 | \$ 1,396,020 | \$ 83,254,458 | \$ 5,132,332 | \$ 8,908,107 | \$ 8,837,462 |

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, 2014 and 2013, the University holds GNMA securities with a total value of \$219,820 and \$39,147, respectively.

As of June 30, 2014 and June 30, 2013, the University holds \$2,551,162 and \$8,837,462, respectively, in Negotiable Certificates of Deposits. These certificates are held in the project trust account for the Series 2012 Bonds. Although the certificates are not rated, each certificate is issued by a member of the Federal Deposit Insurance Corporation and is held in an amount covered by this insurance.

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, 2014 and 2013, \$26,487,213 and \$78,907,207, 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, 2014 and 2013, \$13,754,172 and

Wright State University

Notes to Financial Statements (Continued)

\$66,379,504, respectively, of the investments held by the counterparty are held in trust accounts for the proceeds related to the Series 2011 and 2012 Bond Funds and the 2013 Notes Payable.

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

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification. It is the risk of loss attributed to the magnitude of the university's investment in a single issuer. Investment managers are required by the investment policy to limit exposure for any one single issue to no more than five percent of the portfolio, at cost. This limit does not apply to investments in U.S. securities. Equity and fixed income managers are required to limit 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, 2014 and 2013, six percent (\$8,635,976) and sixteen percent (\$30,290,011), respectively, of the university's portfolio is held in various Federal Home Loan Bank securities. Of these securities, \$8,575,777 are restricted and held in debt related project funds as of June 30, 2014, as compared to \$30,230,841 held in project funds as of June 30, 2013. As of June 30, 2014, less than five percent of the university's portfolio was held in Federal Home Loan Mortgage Corp. securities; however as of June 30, 2013, eleven percent (\$21,021,896) of the university's portfolio was held in various Federal Home Loan Mortgage Corp. securities. Of these securities, \$19,643,074 were restricted and held in debt related project funds as of June 30, 2013.

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, 2014 and 2013, the university's exposure to foreign currency is limited to its investment in international mutual funds of \$28,460,762 and \$25,621,664, respectively.

Unspent Debt Proceeds

The university's unspent debt proceeds at June 30 are as follows:

| Debt | Date Issued | Amount Issued | Amount Unspent | |
|--------------|---------------|----------------|----------------|---------------|
| | | | 2014 | 2013 |
| Series 2011A | November 2011 | \$ 55,240,000 | \$ 29,590,177 | \$ 42,176,593 |
| Series 2012 | November 2012 | 23,195,000 | 9,806,527 | 9,771,262 |
| 2013 Notes | | | | |
| Series A & B | February 2013 | 25,000,000 | 4,787,579 | 21,666,389 |
| Total | | \$ 103,435,000 | \$ 44,184,283 | \$ 73,614,244 |

The unspent proceeds are held in Project Fund trust accounts as provided for in the bond resolutions 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 for the Series 2011 and 2012. The Huntington National Bank acts as the trustee of the project fund for Notes A and B. As of June 30, 2014 and 2013, \$30,430,111 and \$7,234,740, respectively, of the unspent debt related proceeds are classified as restricted cash and cash equivalents in the

Wright State University

Notes to Financial Statements
(Continued)

statements of net position. The remaining unspent proceeds are classified as restricted short-term and restricted noncurrent investments in the statements of net position.

For disclosure purposes the trust account balances as of June 30 are classified as follows:

| | Year Ended June 30 | |
|------------------------------------|--------------------|---------------|
| | 2014 | 2013 |
| Carry amount of deposits: | | |
| Demand deposits | \$ 29,912,975 | \$ 5,666,831 |
| Money market funds | 517,136 | 1,567,909 |
| Total deposits | 30,430,111 | 7,234,740 |
| Fair value of investments: | | |
| U.S. Treasury securities | | 2,001,180 |
| U.S. Agency securities | 11,203,010 | 55,540,862 |
| Negotiable Certificates of Deposit | 2,551,162 | 8,837,462 |
| Total investments | 13,754,172 | 66,379,504 |
| Total unspent bond proceeds | \$ 44,184,283 | \$ 73,614,244 |

Investment Income

The composition of investment income is as follows:

| | Year Ended June 30 | |
|----------------------------------|--------------------|---------------|
| | 2014 | 2013 |
| Net interest and dividend income | \$ 1,750,435 | \$ 2,963,093 |
| Realized gains on sales | 10,095,051 | 7,834,744 |
| Unrealized gains in fair value | 5,704,692 | 4,983,212 |
| Total | \$ 17,550,178 | \$ 15,781,049 |

(3) Accounts Receivable

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

| | 2014 | 2013 |
|--|---------------|---------------|
| Sponsor receivables | \$ 17,797,792 | \$ 15,828,636 |
| Student and student-related accounts | 10,707,587 | 14,830,699 |
| Wright State University Foundation | 1,348,295 | 791,698 |
| Interest receivable | 154,537 | 249,563 |
| State appropriations | 4,855,876 | |
| Other, primarily departmental sales and services | 3,000,853 | 5,278,861 |
| Total | 37,864,940 | 36,979,457 |
| Less: Allowance for doubtful accounts | 1,756,000 | 1,715,000 |
| Net accounts receivable | \$ 36,108,940 | \$ 35,264,457 |

Wright State University
Notes to Financial Statements
(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 is summarized as follows:

| | Balance 7/1/2013 | Additions | Retirements | Balance 6/30/2014 |
|--------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| Land | \$ 4,051,702 | \$ | \$ | \$ 4,051,702 |
| Land improvements and infrastructure | 48,414,106 | 7,937,203 | | 56,351,309 |
| Buildings | 379,889,475 | 8,647,752 | | 388,537,227 |
| Machinery and equipment | 78,573,327 | 7,222,374 | (2,785,162) | 83,010,539 |
| Library books and publications | 52,314,748 | 1,831,523 | (312,817) | 53,833,454 |
| Construction in progress | <u>5,375,753</u> | <u>24,768,840</u> | <u>(828,999)</u> | <u>29,315,594</u> |
| Total | 568,619,111 | 50,407,692 | (3,926,978) | 615,099,825 |
| Less accumulated depreciation: | | | | |
| Land improvements and infrastructure | 16,549,636 | 1,586,043 | | 18,135,679 |
| Buildings | 155,505,772 | 9,059,677 | | 164,565,449 |
| Machinery and equipment | 56,238,699 | 8,533,325 | (2,558,894) | 62,213,130 |
| Library books and publications | <u>35,301,124</u> | <u>2,300,166</u> | <u>(312,817)</u> | <u>37,288,473</u> |
| Total accumulated depreciation | <u>263,595,231</u> | <u>21,479,211</u> | <u>(2,871,711)</u> | <u>282,202,731</u> |
| Capital assets, net | <u>\$ 305,023,880</u> | <u>\$ 28,928,481</u> | <u>\$ (1,055,267)</u> | <u>\$ 332,897,094</u> |

Wright State University

Notes to Financial Statements
(Continued)

| | Balance 7/1/2012 | Additions | Retirements | Balance 6/30/2013 |
|---|-----------------------|-----------------------|---------------------|-----------------------|
| Land | \$ 4,051,702 | \$ | \$ | \$ 4,051,702 |
| Land improvements and infrastructure | 43,591,227 | 4,822,879 | | 48,414,106 |
| Buildings | 373,835,969 | 6,053,506 | | 379,889,475 |
| Machinery and equipment | 78,832,775 | 2,160,026 | (2,419,474) | 78,573,327 |
| Library books and publications | 50,670,134 | 1,749,155 | (104,541) | 52,314,748 |
| Construction in progress | <u>2,915,251</u> | <u>2,460,502</u> | | <u>5,375,753</u> |
| Total | 553,897,058 | 17,246,068 | (2,524,015) | 568,619,111 |
| Less accumulated depreciation: | | | | |
| Land improvements and infrastructure | 15,134,678 | 1,414,958 | | 16,549,636 |
| Buildings | 146,521,699 | 8,984,073 | | 155,505,772 |
| Machinery and equipment | 49,677,009 | 8,690,310 | (2,128,620) | 56,238,699 |
| Library books and publications | <u>33,073,653</u> | <u>2,332,012</u> | <u>(104,541)</u> | <u>35,301,124</u> |
| Total accumulated depreciation | <u>244,407,039</u> | <u>21,421,353</u> | <u>(2,233,161)</u> | <u>263,595,231</u> |
| Capital assets, net | <u>\$ 309,490,019</u> | <u>\$ (4,175,285)</u> | <u>\$ (290,854)</u> | <u>\$ 305,023,880</u> |

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Notes to Financial Statements
(Continued)

(5) Long-Term Liabilities

Long-term liabilities consist of bonds payable, notes payable, equipment lease purchase obligations, and compensated absences. Activity for long-term liabilities for the years ended June 30, 2014 and 2013 is summarized as follows:

| | Beginning Balance 07/01/2013 | Additions | Reductions | Ending Balance 06/30/2014 | Current Portion |
|---|------------------------------------|----------------------|----------------------|---------------------------------|----------------------|
| Bonds, notes and equipment lease purchase obligations: | | | | | |
| General obligation bonds | \$ 88,719,926 | \$ | \$ 6,017,948 | \$ 82,701,978 | \$ 5,254,707 |
| Notes payable | 25,500,000 | | 1,505,505 | 23,994,495 | 1,532,303 |
| Equipment leases | 182,116 | | 109,421 | 72,695 | 50,018 |
| Total bonds, notes and equipment leases | 114,402,042 | | 7,632,874 | 106,769,168 | 6,837,028 |
| Other liabilities: | | | | | |
| Compensated absences | 17,000,000 | 4,468,055 | 4,868,055 | 16,600,000 | 6,000,000 |
| Total other liabilities | 17,000,000 | 4,468,055 | 4,868,055 | 16,600,000 | 6,000,000 |
| Total long-term liabilities | <u>\$ 131,402,042</u> | <u>\$ 4,468,055</u> | <u>\$ 12,500,929</u> | <u>\$ 123,369,168</u> | <u>\$ 12,837,028</u> |
| | Beginning Balance 07/01/2012 | Additions | Reductions | Ending Balance 06/30/2013 | Current Portion |
| Bonds and equipment lease purchase obligations: | | | | | |
| General obligation bonds | \$ 84,142,342 | \$ 25,335,700 | \$ 20,758,116 | \$ 88,719,926 | \$ 6,019,647 |
| Notes payable | | 25,500,000 | | 25,500,000 | 1,505,505 |
| Equipment leases | 282,670 | | 100,554 | 182,116 | 109,421 |
| Total bonds and equipment leases | 84,425,012 | 50,835,700 | 20,858,670 | 114,402,042 | 7,634,573 |
| Other liabilities: | | | | | |
| Compensated absences | 16,800,000 | 5,887,583 | 5,687,583 | 17,000,000 | 6,000,000 |
| Total other liabilities | 16,800,000 | 5,887,583 | 5,687,583 | 17,000,000 | 6,000,000 |
| Total long-term liabilities | <u>\$ 101,225,012</u> | <u>\$ 56,723,283</u> | <u>\$ 26,546,253</u> | <u>\$ 131,402,042</u> | <u>\$ 13,634,573</u> |

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Notes to Financial Statements
(Continued)

Bonds payable on June 30, 2014 consist of Series 2003, 2009, 2011, and 2012 General Receipts Serial and Term bonds. The maturity dates, interest rates, and the outstanding principal balances of capital activities at June 30, 2014 are as follows:

| Description | Maturity Dates | Interest Rates | Outstanding Principal | Unamortized Premium | Total |
|--------------------------------------|----------------|----------------|-----------------------|---------------------|----------------|
| Bonds payable: | | | | | |
| Series 2003 | 2014-2016 | 4.00% - 5.00% | \$ 20,000 | \$ | \$ 20,000 |
| Series 2009 | 2014-2019 | 3.64% - 5.31% | 6,030,000 | | 6,030,000 |
| Series 2011A | 2014-2031 | 4.00% - 5.00% | 48,190,000 | 2,936,624 | 51,126,624 |
| Series 2011B | 2014-2023 | 2.13% - 3.75% | 1,355,000 | | 1,355,000 |
| Series 2012 | 2014-2032 | 3.00% - 5.00% | 22,295,000 | 1,875,354 | 24,170,354 |
| Total bonds payable | | | 77,890,000 | 4,811,978 | 82,701,978 |
| Notes payable: | | | | | |
| Ohio Air Quality Development: | | | | | |
| Series A | 2014-2024 | 1.78% | 15,681,795 | | 15,681,795 |
| Series B | 2024-2028 | 4.16% | 8,312,700 | | 8,312,700 |
| Total notes payable | | | 23,994,495 | | 23,994,495 |
| Equipment lease purchase obligations | 2014-2016 | 3.84% - 11.57% | 72,695 | | 72,695 |
| Total | | | \$ 101,957,190 | \$ 4,811,978 | \$ 106,769,168 |

The scheduled maturities of bonds, notes, 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 |
|-----------------------|----------------|---------------|----------------|
| 2015 | \$ 6,527,321 | \$ 4,130,353 | \$ 10,657,674 |
| 2016 | 6,682,254 | 3,922,096 | 10,604,350 |
| 2017 | 6,882,338 | 3,684,460 | 10,566,798 |
| 2018 | 7,095,593 | 3,437,851 | 10,533,444 |
| 2019 | 7,364,351 | 3,163,390 | 10,527,741 |
| 2020-2024 | 28,221,355 | 12,248,868 | 40,470,223 |
| 2025-2029 | 29,708,978 | 6,268,939 | 35,977,917 |
| 2030-2032 | 9,475,000 | 763,000 | 10,238,000 |
| Total | \$ 101,957,190 | \$ 37,618,957 | \$ 139,576,147 |

Wright State University

Notes to Financial Statements
(Continued)

Interest expense incurred on indebtedness for the years ended June 30, 2014 and 2013 was \$3,401,986 and \$3,723,349, respectively. Interest expense on construction related debt of \$589,366 and \$49,608 was capitalized to the related projects in 2014 and 2013, respectively.

All general receipts of the University, except for state appropriations, are pledged for payment of all outstanding bonds. The Series A and Series B Notes evidence the university's obligation to make loan payments from Available Receipts. The Notes are subordinated to the university's obligations to pay debt service on all General Receipts Obligations.

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 Series 2013B Note is related to an Ohio Air Quality Development Authority Qualified Energy Conservation Bond which is eligible for a 70 percent federal rebate based on the Qualified Tax Credit Rate as of the bond sale date (4.60 percent). The benefit of this rebate has been assigned to the University. The rebates for the 2009 Bonds and the 2013B Note were \$352,058 and \$167,909 for the years ended June 30, 2014 and 2013, respectively. The rebates were reported as Other Nonoperating Revenues and do 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 rebates anticipated for future years. The University expects to receive \$3,594,133 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 position. Rent expenses for the year ended June 30, 2014 and 2013 were \$2,023,574 and \$2,745,892, respectively.

Future minimum payments for all material operating leases as of June 30, 2014, are as follows:

| | |
|------------------------------|----------------------------|
| 2015 | \$ 1,067,213 |
| 2016 | 628,891 |
| 2017 | 193,698 |
| 2018 | <u>38,202</u> |
| Total minimum lease payments | \$ <u><u>1,928,004</u></u> |

(7) Retirement Plans

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

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

Plan participants are required to contribute 11 percent and 10 percent for STRS and OPERS, respectively. The University is required to contribute 14 percent of the employees' covered

Wright State University

Notes to Financial Statements (Continued)

compensation for both STRS and OPERS. Effective July 1, 2014, the plan participants' contribution percentage for STRS will increase to 12 percent of employees' covered compensation. The Ohio Revised Code provides statutory authority for both employee and employer contributions. The university's contributions to STRS were \$8,771,030, \$8,813,581, and \$8,930,944, and to OPERS were \$8,548,409, \$8,381,947, and \$8,327,165, for the years ended June 30, 2014, 2013, and 2012, 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 OPERS and 11 percent for those who would otherwise participate in STRS. Effective July 1, 2014, the plan participants' contribution percentage for those who would otherwise participate in STRS will increase to 12 percent. The university's contributions to a participating faculty member's account and to STRS are 9.5 percent and 4.5 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 \$5,865,779, \$5,353,406, and \$4,906,353, and the university's contributions to the plan providers amounted to \$6,117,266, \$6,384,440, and \$5,718,262 for the years ended June 30, 2014, 2013, and 2012, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$1,573,660, \$1,250,936, and \$1,072,697, respectively, for the years ended June 30, 2014, 2013, and 2012. The amounts contributed to OPERS by the University on behalf of ARP participants were \$163,962, \$152,637, and \$145,362 for the years ended June 30, 2014, 2013, and 2012, 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 2014, 2013, and 2012. The portion of the university's 2014, 2013, and 2012 contributions to STRS Ohio used to fund postemployment benefits was \$626,502, \$629,542, and \$637,925 for the years ended June 30, 2014, 2013, and 2012, respectively.

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Notes to Financial Statements (Continued)

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 1.5%, 2.5%, and 4.0% for the years ended June 30, 2014, 2013, and 2012, respectively. The portion of the university's 2014, 2013, and 2012 contributions to OPERS used to fund postretirement benefits was \$915,901, \$1,496,776, and \$2,379,190. 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 subsidy from the State of Ohio primarily based upon the number of successful degree and course completions. This subsidy is calculated annually by the Ohio Board of Regents, Ohio's higher education advising and coordinating board.

In addition to student 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
(Continued)

(10) Commitments and Contingencies

At June 30, 2014, the University is committed under contractual obligations for:

| | |
|--------------------------------|----------------------|
| Capital expenditures | \$ 31,630,117 |
| Non-capital goods and services | <u>11,186,977</u> |
| Total contractual commitments | <u>\$ 42,817,094</u> |

These commitments are being funded from the following sources:

| | |
|---|----------------------|
| State appropriations requested and approved | \$ 5,414,719 |
| University funds | <u>37,402,375</u> |
| Total sources | <u>\$ 42,817,094</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 statements 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, 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 three fiscal years are as follows:

| | 2014 | 2013 | 2012 |
|--|---------------------|---------------------|---------------------|
| Liability at beginning of fiscal year | \$ 1,600,000 | \$ 1,800,000 | \$ 1,600,000 |
| Current year claims including changes in estimates | 28,571,273 | 27,392,159 | 27,825,820 |
| Claim payments | <u>(28,501,273)</u> | <u>(27,592,159)</u> | <u>(27,625,820)</u> |
| Liability at end of fiscal year | <u>\$ 1,670,000</u> | <u>\$ 1,600,000</u> | <u>\$ 1,800,000</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 year-end

Wright State University

Notes to Financial Statements
(Continued)

lag analysis. Differences between the estimated claims payable and actual claims paid are reported in the statements of revenues, expenses and changes in net position.

(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 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.

Principles of consolidation

The consolidated financial statements include the accounts of Wright State University Foundation and its wholly-owned limited liability company subsidiary Fairborn Office Property LLC. The consolidated entities are collectively referred to as “the Foundation”. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

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, when appropriate. 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.

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Notes to Financial Statements
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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 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 consolidated 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 consolidated statement of activities. Investments are managed by professional investment managers.

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.

Capital Assets

Expenditures for property and equipment and items that substantially increase the useful lives of existing assets are capitalized at cost. It is the policy of the Foundation to capitalize additions with an original cost of \$5,000 or more. Assets acquired by gift are valued at fair value as of the date donated. The Foundation provides for depreciation using the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

| | <u>Years</u> |
|-------------------------|--------------|
| Land improvements | 10-25 |
| Buildings | 20-65 |
| Machinery and equipment | 5-10 |

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 net 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.

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Notes to Financial Statements (Continued)

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 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 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 consolidated 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 consolidated 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

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Notes to Financial Statements
(Continued)

than not" test, no tax benefit is recorded. 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, 2014 or 2013, respectively.

The Foundation is no longer subject to examination by taxing authorities for years before 2011. The Foundation does not have any tax benefits recorded at June 30, 2014, 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, 2014 or 2013.

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.

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 consolidated 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 under an outsourced chief investment officer arrangement. 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.

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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
- 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.

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Notes to Financial Statements
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Assets measured at fair value on a recurring basis are summarized below and on the following page for the years ended June 30, 2014 and 2013:

| | Fair Value Measurements at June 30, 2014 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 | \$ | \$ | \$ 1,326,100 | \$ 1,326,100 |
| Investment in securities: | | | | |
| Mutual funds: | | | | |
| Equity | 55,351,028 | | | 55,351,028 |
| Fixed Income | 46,272,699 | | | 46,272,699 |
| Alternative assets: | | | | |
| Hedge funds | | 6,557,263 | 5,039,597 | 11,596,860 |
| Private equity | | | 2,210,760 | 2,210,760 |
| Distressed debt | | 2,748,692 | | 2,748,692 |
| Total investment in securities | <u>101,623,727</u> | <u>9,305,955</u> | <u>7,250,357</u> | <u>118,180,039</u> |
| Other investments: | | | | |
| Limited partnerships | | | 1,155,707 | 1,155,707 |
| Annuity assets: | | | | |
| Cash and equivalents | | 209,209 | | 209,209 |
| Mutual funds-securities | <u>25,211</u> | <u>580,703</u> | | <u>605,914</u> |
| Total annuity assets | <u>25,211</u> | <u>789,912</u> | | <u>815,123</u> |
| Total | <u>\$ 101,648,938</u> | <u>\$ 10,095,867</u> | <u>\$ 9,732,164</u> | <u>\$ 121,476,969</u> |

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Notes to Financial Statements
(Continued)

| Fair Value Measurements at June 30, 2013 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 | \$ | \$ | \$ 1,277,300 | \$ 1,277,300 |
| Investment in securities: | | | | |
| Mutual funds: | | | | |
| Equity | 50,824,891 | | | 50,824,891 |
| Fixed Income | 40,911,330 | | | 40,911,330 |
| Alternative assets: | | | | |
| Hedge funds | | 6,486,694 | 4,750,943 | 11,237,637 |
| Private equity | | | 2,064,725 | 2,064,725 |
| Distressed debt | | 2,582,595 | | 2,582,595 |
| Total investment in securities | 91,736,221 | 9,069,289 | 6,815,668 | 107,621,178 |
| Other investments: | | | | |
| Limited partnerships | | | 1,485,281 | 1,485,281 |
| Annuity assets: | | | | |
| Cash and equivalents | | 68,371 | | 68,371 |
| Mutual funds-securities | 26,811 | 157,455 | | 184,266 |
| Total annuity assets | 26,811 | 225,826 | | 252,637 |
| Total | \$ 91,763,032 | \$ 9,295,115 | \$ 9,578,249 | \$ 110,636,396 |

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Notes to Financial Statements
(Continued)

The table below presents a reconciliation and consolidated statement of activities 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, 2014 and 2013:

| | 2014 | | | |
|--|---|---------------------|---------------------|-------------------------|
| | Gifts Receivable from Trusts Held by Others | Hedge Funds | Private Equity | Limited Partnerships |
| Beginning balance, July 1 | \$ 1,277,300 | \$ 4,750,943 | \$ 2,064,725 | \$ 1,485,281 |
| Interest and dividends | | | 37,760 | |
| Realized gains on sales | | | 99,044 | |
| Unrealized gains included in earnings | | 288,654 | 12,731 | (103,566) |
| Purchases | | | 339,500 | 53,015 |
| Sales | | | (343,000) | (279,023) |
| Change in value of split interest agreements | 48,800 | | | |
| Net transfers in/(out) of Level 3 | | | | |
| Ending balance, June 30 | <u>\$ 1,326,100</u> | <u>\$ 5,039,597</u> | <u>\$ 2,210,760</u> | <u>\$ 1,155,707</u> |
| | 2013 | | | |
| | Gifts Receivable from Trusts Held by Others | Hedge Funds | Private Equity | Limited Partnerships |
| Beginning balance, July 1 | \$ 1,414,100 | \$ | \$ 1,468,920 | \$ 1,354,550 |
| Interest and dividends | | | 9,774 | |
| Realized gains on sales | | | 156,783 | 4,943 |
| Unrealized gains included in earnings | | 120,943 | 128,248 | (44,439) |
| Purchases | | 4,630,000 | 455,000 | 254,486 |
| Sales | (190,600) | | (154,000) | (84,259) |
| Change in value of split interest agreements | 53,800 | | | |
| Net transfers in/(out) of Level 3 | | | | |
| Ending balance, June 30 | <u>\$ 1,277,300</u> | <u>\$ 4,750,943</u> | <u>\$ 2,064,725</u> | <u>\$ 1,485,281</u> |

The unrealized gain included in earnings for Level 3 investments still held at June 30, 2014 and 2013 is \$197,819 and \$204,752, respectively.

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 mutual funds is based on quoted prices in active markets (Level 1 inputs).

For hedge funds, private equity and distressed debt, 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

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Notes to Financial Statements
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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).

Approximately one half of the Foundation's hedge fund allocation is invested in 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 on a quarterly basis with 65 days prior notification. At June 30, 2014, the Foundation has no significant unfunded commitments to this hedge fund allocation. The valuation of this investment is based on net asset value ("NAV") using the market approach (Level 2 input).

The balance of the Foundation's hedge fund allocation is also invested in a "fund of funds" structured as an offshore company. The fund's investment objective is to seek to achieve high returns balanced against an appropriate level of volatility and directional market exposure over a full market cycle. The fund is broadly diversified and invests in various private funds such as hedge funds that pursue hedged or other alternative investment strategies, private equity funds, hybrid funds and any other alternative investment funds, while also opportunistically investing directly in any other securities and financial instruments. The fund generally invests in 15-20 funds and the fund of funds manager requires full transparency of each of the underlying funds' investment positions. The Foundation is subject to the fund's initial two-year lock-up period, which will end in January of 2015. Once the lock-up period has ended, the Foundation may request liquidation on a semi-annual basis with 95 days prior notification. At June 30, 2014, the Foundation has no significant unfunded commitments to this hedge fund allocation. The valuation of this investment is based on NAV using the market approach (Level 3 input).

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, 2014, the Foundation's total capital commitment of \$3,500,000 was 64.3% (\$2,250,408) 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 valuation of this investment is based on NAV using the market approach (Level 3 input).

The Foundation's investment in distressed debt 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, 2014. 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.

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Notes to Financial Statements
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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 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, using the market approach.

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.

D. Pledges Receivable

Pledges receivable at June 30, 2014 and 2013, by fund type, are as follows:

| | 2014 | | | |
|-------------------------------------|--------------|---------------------------|---------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
| Less than one year | \$ 58,600 | \$ 1,485,022 | \$ 328,376 | \$ 1,871,998 |
| One to five years | | 3,479,767 | 225,588 | 3,705,355 |
| Six years or greater | | 2,016,500 | | 2,016,500 |
| Gross pledges receivable | 58,600 | 6,981,289 | 553,964 | 7,593,853 |
| Present value discount | | (1,080,789) | (5,464) | (1,086,253) |
| Allowance for uncollectible pledges | | (55,000) | (12,300) | (67,300) |
| Pledges receivable (net) | \$ 58,600 | \$ 5,845,500 | \$ 536,200 | \$ 6,440,300 |

| | 2013 | | | |
|-------------------------------------|--------------|---------------------------|---------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
| Less than one year | \$ 36,200 | \$ 2,133,598 | \$ 287,768 | \$ 2,457,566 |
| One to five years | | 2,196,305 | 200,561 | 2,396,866 |
| Six years or greater | | 2,047,000 | | 2,047,000 |
| Gross pledges receivable | 36,200 | 6,376,903 | 488,329 | 6,901,432 |
| Present value discount | | (1,024,503) | (3,729) | (1,028,232) |
| Allowance for uncollectible pledges | | (46,900) | (9,000) | (55,900) |
| Pledges receivable (net) | \$ 36,200 | \$ 5,305,500 | \$ 475,600 | \$ 5,817,300 |

The fair value of pledges receivable was determined using discount rates applicable to the year in which the pledge was established. Rates ranged from 0.72% to 3.34%.

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Notes to Financial Statements
(Continued)

E. 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 payment expected to be made to other beneficiaries. The present value is calculated using the discount rate the year in which the trust was established, in this case, 4.92%. The balances at June 30, 2014 and 2013, are \$1,326,100 and \$1,277,300, respectively, and are included in Temporarily Restricted net assets.

F. Capital Assets

Capital assets activity for the year ended June 30, 2014 and 2013 is summarized as:

| | 2014 | | | | |
|--------------------------------|----------------------|--------------|------------|-------------|-------------------|
| | Beginning Balance | Additions | Reductions | Transfers | Ending Balance |
| Capital assets: | | | | | |
| Land | \$ 173,000 | \$ | \$ | \$ | \$ 173,000 |
| Buildings and improvements | 588,264 | | | 1,961,800 | 2,550,064 |
| Machinery and equipment | 28,632 | | | | 28,632 |
| Construction in progress | 701,770 | 1,260,030 | | (1,961,800) | |
| Total capital assets | 1,491,666 | 1,260,030 | | | 2,751,696 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | 7,354 | 63,752 | | | 71,106 |
| Machinery and equipment | 2,045 | 4,090 | | | 6,135 |
| Total accumulated depreciation | 9,399 | 67,842 | | | 77,241 |
| Capital assets, net | \$ 1,482,267 | \$ 1,192,188 | \$ | \$ | \$ 2,674,455 |

| | 2013 | | | | |
|--------------------------------|----------------------|--------------|------------|-----------|-------------------|
| | Beginning Balance | Additions | Reductions | Transfers | Ending Balance |
| Capital assets: | | | | | |
| Land | \$ | \$ 173,000 | \$ | \$ | \$ 173,000 |
| Buildings and improvements | | 588,264 | | | 588,264 |
| Machinery and equipment | | 28,632 | | | 28,632 |
| Construction in progress | | 701,770 | | | 701,770 |
| Total capital assets | | 1,491,666 | | | 1,491,666 |
| Less accumulated depreciation: | | | | | |
| Buildings and improvements | | 7,354 | | | 7,354 |
| Machinery and equipment | | 2,045 | | | 2,045 |
| Total accumulated depreciation | | 9,399 | | | 9,399 |
| Capital assets, net | \$ | \$ 1,482,267 | \$ | \$ | \$ 1,482,267 |

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Notes to Financial Statements
(Continued)

G. 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 \$3,000,000 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 guaranty may expire without being drawn upon, the total guaranty does not necessarily represent future cash requirements. As of June 30, 2014, no amounts have been recognized as a liability under the financial guaranty in the Foundation's consolidated 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 \$13,500,000 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, 2014 and 2013, no amounts were recognized as a liability under the financial guaranty in the Foundation's consolidated statement of financial position. On May 12, 2014, the Foundation's obligation under this financing arrangement was terminated due to a refinancing arrangement initiated by WSP. The new financing arrangement does not involve a guaranty or any other financial obligation by the Foundation.

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