



WRIGHT STATE UNIVERSITY

ANNUAL REPORT

FOR THE
YEAR ENDED
JUNE 30, 2015


WRIGHT STATE
UNIVERSITY
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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, 2015 with selected comparative information for the years ended June 30, 2014 and 2013. 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 continues to make progress executing its capital plan with the completion of two new impressive buildings on its main campus. The cutting-edge Neuroscience Engineering Collaboration (NEC) Building – a \$37 million, 90,000 square-foot facility - was completed late in fiscal 2015. The building houses leading engineers, neuroscientists, neurologists, and students in a state-of-the-art facility designed to foster synergies with core resources, highly integrated laboratories and interactive student spaces. In addition, the Student Success Center was completed in late 2015. The \$17 million, 67,000 square-foot center is dedicated to supporting and motivating students through academic support services such as advising and tutoring, huddle rooms for studying, and classrooms designed to increase student engagement and interaction. Both of the new buildings, designed to be more energy efficient than those built using traditional code minimum requirements, are Leadership in Energy and Environmental Design (LEED) certified.
- Efficiency and cost saving initiatives such as the energy conservation project and the critical review and re-design of the university's health care plan continued in 2015. The shared services printing initiative continued to grow in 2015 with the likelihood of including additional public institutions of higher education for enterprise-managed print services in the near future. These efforts were recognized by the University Business Magazine's Model of Efficiency Award for Fall 2014.
- 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 fifth 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.
- The Carnegie Foundation for the Advancement of Teaching selected Wright State to receive its 2015 Community Engagement Classification. The University was also named to the President's Higher Education Community Service Honor Roll by the Corporation for National and Community Service for the fifth consecutive year. These honors recognize the University for its strong institutional commitment to service and campus-community partnerships as evidenced by volunteering, student community service, service learning, and civic engagement. The awards also recognize student efforts in areas of tutoring to local children, service through the Wright State Friendship Food Pantry, and programs for at-risk and underrepresented youth.
- Wright State University continues to be recognized for the services and support provided to its veteran and active duty military students. *Victory Media* designated the University as a "Military Friendly School" for the sixth consecutive year. The designation highlights institutions exhibiting leading practices to support military students. The University enhanced its commitment to the success of those students who are American's military service members, veterans and spouses when it opened the new Veteran and Military Center in November 2014. The 4,500 square foot facility features a lounge,

kitchenette, private study areas, and access to computers. The center provides a unique opportunity to provide veteran and military students with the support and services they need.

- In April 2015, Wright State University's Model United Nations team continued its remarkable streak at the National Model United Nations Conference, receiving recognition for the 36th year in a row. The team returned from the national conference in New York City with a Distinguished Delegation award. Competing against approximately 150 universities from around the world, Wright State was one of approximately 30 colleges to receive this level of recognition. In addition, the team won six Outstanding Position Paper awards.
- The University raised tuition by only 2.2% for all degree levels at both its campuses and for its professional schools in both 2015 and 2014. 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 \$1.1 million from 2014 to 2015 in addition to a \$2.1 million increase from 2013 to 2014. The 2015 and 2014 increases were primarily a result of a larger pool of state dollars awarded to higher education as well as the university's continued success in driving course and degree completions in alignment with the university's mission and the priorities of the State's performance funding model.
- Total net position decreased \$268.1 million in 2015 largely as a result of the implementation of a new GASB standard which is explained in detail in subsequent sections. Net investment in capital increased \$4.6 million as a result of the progress in campus capital projects. Unrestricted net position fell by \$272.9 million primarily as an outcome of a \$246.1 million restatement reducing the beginning net position because of the GASB standard implementation, as well as the use of unrestricted resources to fund some of the capital projects and new investments in Student Access to Success strategies. Net position decreased \$3.3 million in 2014 as the University utilized reserves to fund capital projects and investments in targeted enrollment strategies.
- Fall 2014 headcount was 17,779 as opposed to 17,595 in fall 2013. Embedded in this 1% increase was an increase in international students and graduate level students which further increased student tuition and fees assessed for those student classifications. This, coupled with the slight tuition and fees rate increase, resulted in a \$6.4 million (4.4%) increase in net student tuition and fees revenue. Although fall 2013 headcount represented a 1.1% decrease from fall 2012 headcount of 17,789, net tuition and fee revenue in fiscal year 2014 was relatively flat because of the slight tuition rate increase and the increase of international and graduate students.
- The Wright State University Foundation formally announced a \$150 million fundraising campaign in October, 2014. *Rise. Shine. The Campaign for Wright State University* promises to elevate the university's prominence by expanding scholarships, attracting additional top-flight faculty and supporting state-of-the-art facilities. The campaign is co-chaired by Tom Hanks, Hollywood icon, and Amanda Wright Lane, great grandniece of university namesakes Wilbur and Orville Wright. As of June 30, 2015, the campaign has received over \$116.4 million in gifts and pledges.
- The university's commitment to diversity and international program development resulted in partnerships in Iraq, China, Turkmenistan, Mongolia and Japan. The University awarded over 150 scholarships for international travel. A record number of international ambassador programs occurred in the summer of 2014. The University hosted over 75 visitors from 30 different countries. The University Center of International Education's yearlong work with the Bureau of Consular Affairs resulted in the Center's appointment as a Passport Acceptance Facility in January 2015.
- The Wright State University's Special Collections and Archives and its Wright Brothers Collection were featured during a segment on *CBS Sunday Morning* on May 3, 2015. The show interviewed author David McCullough about his new book, *The Wright Brothers*. McCullough utilized the Special

Collections and Archives when conducting research for the book. He noted the Wright Brothers Collection is one of the most complete collections of Wright material in the world.

- During 2015, the University implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* (together referred to as GASB No. 68). The principal effect of the adoption of these GASB statements is the requirement for reporting a net pension liability and deferred inflows and deferred outflows of resources related to pensions. Please refer to the discussion of 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*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. 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.

Comparison of the university's financial statements between fiscal years 2015, 2014, and 2013 is complicated by two circumstances: the adoption of GASB No. 68 and the transition of the fiscal agency of OhioLINK.

During 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* which significantly revise accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the university's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension from the reported net position.

Prior to the adoption of GASB No. 68, the University followed GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers* when accounting for pension costs. GASB No. 27 focused on a funding approach limiting pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB No. 68, the net pension liability equals the university's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service,
2. Less plan assets available to pay these benefits.

In Statement No. 68, GASB notes pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading services in exchange for wages, benefits, and the promise of a future pension. GASB noted the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and therefore it should be reported by the government as a liability since it received the benefit of the exchange. However, the University is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by state statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by state statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law and there is a specific, legal limit to its contribution to the pension system. In Ohio, no legal means exists to enforce the unfunded liability of the pension system to governmental employers. Because all parties enter the employment exchange with notice as to the law, state law mitigates the moral obligation of the public employer to the employee. The pension system is responsible for the administration of the plan.

Although most long-term liabilities have set repayment schedules, net pension liability has no repayment schedule. As explained above, items affecting net pension liability such as changes in pension benefits, contribution rates, and return on investments are outside the control of the University. In the event contributions, investment returns, and other changes are insufficient to meet required pension payments, state statute does not assign or identify the responsible party for the unfunded portion. Due to the unique nature of net pension liability, it is separately identified within the noncurrent liabilities section of the Statement of Net Position.

In accordance with GASB No. 68, the university's statements prepared on an accrual basis of accounting include an annual pension expense for its proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. The University is also reporting a net pension liability and deferred inflows/outflows of resources related to pensions. The adoption of the statement has impacted the financial statements for fiscal year 2015; however, adequate information was not available to restate prior fiscal years. Therefore the user is cautioned about drawing comparisons between fiscal years in areas of the statements impacted by GASB No. 68.

Comparison of the financial statements between fiscal years is also impacted by the transition of the fiscal agency of OhioLINK. For over two decades, Wright State University 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. However, none of OhioLINK's revenues and expenses for fiscal year ended June 30, 2015 are included in the university's financial statements. The variances caused by this transition are explained throughout the analysis.

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 as of June 30, 2015, with comparative information as of June 30, 2014. 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:

	2015	2014	2013
	(All dollar amounts in thousands)		
Current assets	\$ 94,459	\$ 105,750	\$ 133,250
Noncurrent assets:			
Capital assets, net	365,995	332,897	305,024
Other	80,246	131,735	148,929
Deferred outflows of resources	19,322	443	472
Total assets and deferred outflows	<u>560,022</u>	<u>570,825</u>	<u>587,675</u>
Current liabilities	71,504	68,633	76,668
Noncurrent liabilities	333,513	112,224	117,768
Deferred inflows of resources	33,120		
Total liabilities and deferred inflows	<u>438,137</u>	<u>180,857</u>	<u>194,436</u>
Net position:			
Net investment in capital	275,426	270,844	265,313
Restricted	17,573	17,350	17,747
Unrestricted	(171,114)	101,774	110,179
Total net position	<u>\$ 121,885</u>	<u>\$ 389,968</u>	<u>\$ 393,239</u>

As a result of implementing GASB No. 68, the University is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also resulted in the restating net position at July 1, 2014, from \$389,968,220 to \$143,909,833.

In addition to the restatement of net position as a result of GASB No. 68, the university's total net position decreased \$22 million in 2015. Net investment in capital increased \$4.6 million related to the completion of two significant capital projects in 2015: the NEC Building and the Student Success Center. In addition, the University continued work on the energy conservation project and the renovation of the Creative Arts Center. 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. Although unrestricted net position decreased by \$272.9 million in 2015, \$246.1 of the decrease is a result of the restatement of the beginning balance and \$26.8 million is a result of current year operations. In addition to the capital funding, additional decreases to unrestricted net position in 2015 related to strategic investments in initiatives core to the mission and furthering the university's competitive position in the region. Nearly \$7.3 million was dedicated to Student Access to Success including a \$4 million increase in scholarship and \$3.3 million invested in support services such as tutoring, language development and advising. These initiatives have resulted in increased enrollment and retention. An additional \$1 million investment was made in support of strategic initiatives in the university's research area with an expectation of future returns on this investment. The University invested \$4 million in strategic management of real estate properties which will be critical as the University manages its future campus footprint and space needs. An additional \$7.6 million in personnel expenses were incurred for special projects in areas such as student advising, staffing transitions, program and administrative support, and lectureship. The university's net position decreased \$3.3 million in 2014 primarily as a result of increased efforts to grow enrollment, particularly that of international students.

Total assets and deferred outflows decreased \$10.8 million in 2015 from 2014. *Current assets*, comprised primarily of cash and operating investments, student and sponsor receivables, and prepaid expenses, decreased by \$11.3 million in 2015. Restricted cash and investments decreased by \$35.3 million during 2015 as a result of the spending of bond proceeds secured in previous years to fund the university's capital projects. The decrease in restricted cash and investments was offset by an increase in cash and short term

investments of \$25.3 million. Current assets decreased by \$27.5 million in 2014 from 2013 due to the \$17.7 million reduction of restricted cash and investments related to spending of bond proceeds on capital projects and the \$11.7 million reduction of prepaid expenses related to a transition of the OhioLINK program to The Ohio State University.

Other noncurrent assets decreased \$51.5 million from \$131.7 million in 2014 to \$80.2 million in 2015. 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 2015 and 2014 at \$69.1 million and \$120.2 million, respectively. A significant portion of the \$51.1 million decrease in long-term unrestricted investments is the result of the decrease in unrestricted net position resulting from the strategic initiatives previously discussed. An additional \$25.2 million of the decrease in the long-term investment balance is attributable to a shift to cash and short-term investments. Loans receivable comprise the balance of the noncurrent assets at \$11 million and \$11.4 million in 2015 and 2014, respectively. Other noncurrent assets decreased \$17.2 million in 2014 due to a decrease in long-term investments which were liquidated for strategic initiatives and an \$11.7 million reduction in restricted investments caused by spending on bond supported projects.

Capital assets, net of depreciation increased \$33.1 million to \$366 million in 2015 from \$332.9 million in 2014. This compares to a \$27.9 million increase in 2014. The majority of capital activity in both years involved four projects: energy conservation, the NEC Building, the Student Success Center, and the Creative Arts Center renovation. The energy conservation project is very near completion with expenditures of \$3.6 million capitalized in 2015 and \$15.8 million capitalized in 2014. The NEC Building incurred \$19.9 million of spending in 2015 as compared to \$14.3 million in 2014. The Student Success Center construction accounted for another \$10.4 million and \$5.5 million of expenditures in 2015 and 2014, respectively. The renovation of the Creative Art center gained momentum in 2015 incurring \$8.8 million of expenses. In addition, routine moveable equipment and library acquisitions were made during the year.

Deferred outflows of resources includes unamortized loss from the refunding of debt in 2013 and balances related to the implementation of GASB No. 68. The unamortized loss from refunding balance was \$0.4 million in both 2015 and 2014. The deferred outflows of resources balance related to pension was \$18.9 million in 2015. A comparable balance is not available for 2014.

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 increased \$2.9 million from \$68.6 million at June 30, 2014 to \$71.5 at June 30, 2015. The overall change in current liabilities is comprised of changes in a number of balances. Accounts payable decreased \$3.3 million from \$16.9 million in 2014 to \$13.6 million in 2015. The larger balance in 2014 was attributable to invoices for capital activity that were received close to year end and paid in 2015. Unearned revenue increased \$4.6 million from \$23.9 million in 2014 to \$28.5 million in 2015. The primary components of unearned revenue are income received in advance of expenditures from project sponsors on contracts and grants and summer semester tuition and fees for the subsequent fiscal year received prior to the close of the current year end. The unearned revenue balance related to contracts and grants remained relatively constant; however the unearned tuition and fees increased \$3.2 million in 2015. An additional \$1.3 million increase related to advanced ticket sales for a popular event held at the Wright State University Nutter Center in July 2015. Current liabilities decreased \$8.1 million during 2014. Fluctuations of liabilities balances in 2014 included a \$3.7 million increase in accounts payable balances related to the invoice for capital activity previously mentioned and an \$11.5 million decrease in unearned revenue resulted from a decrease in advanced sponsor payments primarily driven by the transition of fiscal agency for OhioLINK to The Ohio State University.

Noncurrent liabilities are comprised of unearned revenue, net pension liability and the long-term portion of university debt. They increased \$221.3 million from \$112.2 million at June 30, 2014 to \$333.5 million at June 30, 2015. Net pension liability is newly recorded on the Statement of Net Position as a result of GASB No. 68. The \$228.1 million net pension liability as of June 30, 2015 is the main cause for the overall \$221.3 million increase. The offsetting reduction was a \$7.4 million decrease in long-term liabilities as the University continues to service its debt. Similarly, the \$5.6 million decrease in noncurrent liabilities from

\$117.8 million at June 30, 2013 to \$112.2 million at June 30, 2014 was largely attributable to the university's payment of debt service, thereby reducing its outstanding debt.

Deferred inflows of resources includes balances related to the implementation of GASB No. 68. The deferred inflows of resources related to pension balance at June 30, 2015 is \$33.1 million. A comparable balance is not available for 2014.

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:

	2015	2014	2013
	(All dollar amounts in thousands)		
Net investment in capital	\$ 275,426	\$ 270,844	\$ 265,313
Restricted expendable	17,573	17,350	17,747
Unrestricted:			
Designated	(150,275)	105,409	112,252
Undesignated	(20,838)	(3,635)	(2,073)
Total net position	<u>\$ 121,886</u>	<u>\$ 389,968</u>	<u>\$ 393,239</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 2015, the University continued a number of strategic capital investments expending approximately \$3.6 million on the second phase of the university's energy conservation project, \$19.9 million on the NEC Building, \$10.4 million on the Student Success Center and \$8.8 million on the renovation of the Creative Arts Center. During 2014, the University expended \$15.8 million for the energy conservation project, \$14.3 million for the NEC Building, and over \$5.5 million for the Student Success Center.

Restricted expendable represents funds externally restricted to specific purposes, such as student loans or sponsored projects. The majority of the balances for both 2015 and 2014 represents funds restricted for student loans. The net position in these funds has remained relatively constant in recent years.

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. Doing so in past years has accumulated reserves which provided funding for high priority programs and projects during the current year. Unrestricted net position decreased \$272.9 million in 2015, from \$101.8 million in 2014 to (\$171.1) million. The restatement of net position related to the GASB No. 68 implementation contributed \$246.1 million to the decrease. The remaining \$26.8 million decrease can be primarily attributed to strategic initiatives made to further the university's competitive position in the region and assist in the pursuit of the university's mission. These initiatives included student success objectives aimed at enrollment growth and retention; increased research support; and strategic real estate acquisition and development.

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:

	2015	2014	2013
	(All dollar amounts in thousands)		
Operating revenues:			
Student tuition & fees - net	\$ 150,582	\$ 144,231	\$ 142,514
Grants and contracts	63,845	72,915	99,140
Sales and services	5,571	5,883	6,387
Auxiliary enterprises	10,482	9,915	15,165
Other	2,985	2,940	2,415
Total	<u>233,465</u>	<u>235,884</u>	<u>265,621</u>
Operating expenses	<u>382,245</u>	<u>384,182</u>	<u>414,473</u>
Operating loss	<u>(148,780)</u>	<u>(148,298)</u>	<u>(148,852)</u>
Nonoperating revenues (expenses):			
State appropriations	85,983	85,148	88,941
Federal grants	22,777	22,702	26,520
State grants	3,342	3,419	3,378
Gifts	9,110	7,351	6,687
Investment income (loss)	4,304	17,550	15,781
Interest expense	(3,177)	(3,402)	(3,723)
Other expense	(2,037)	(690)	(424)
Capital appropriations	5,505	8,319	821
Capital grants and gifts	948	4,630	1,986
Total	<u>126,755</u>	<u>145,027</u>	<u>139,967</u>
Decrease in net position	(22,025)	(3,271)	(8,885)
Net position - beginning of year, as restated	143,910	393,239	402,124
Net position - end of year	<u>\$ 121,885</u>	<u>\$ 389,968</u>	<u>\$ 393,239</u>

Comparison of the university's Statements of Revenues, Expenses, and Changes in Net Position is complicated by a change in the fiscal agency for OhioLINK. The University included \$38.1 million of OhioLINK income and related expenses in its Statement of Revenues, Expenses and Changes in Net Position in 2013. This figure decreased to \$11.9 million in 2014 and was eliminated completely in 2015. Certain portions of this discussion and analysis are presented net of OhioLINK revenues or expenditures.

The university's primary revenue source for its core programs and operations continues to be state appropriations and student tuition and fees, which when combined amounted to over 64% of the university's total 2015 revenues. Another 24.6% of 2015 revenues was 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. The University experienced a slight increase in enrollment from 2014 to 2015. This combined with a modest increase in tuition rates resulted in increased 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 aligns with 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. The results of the new model were a 1.3% and 2.5% increase in funding for 2015 and 2014, respectively.

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.

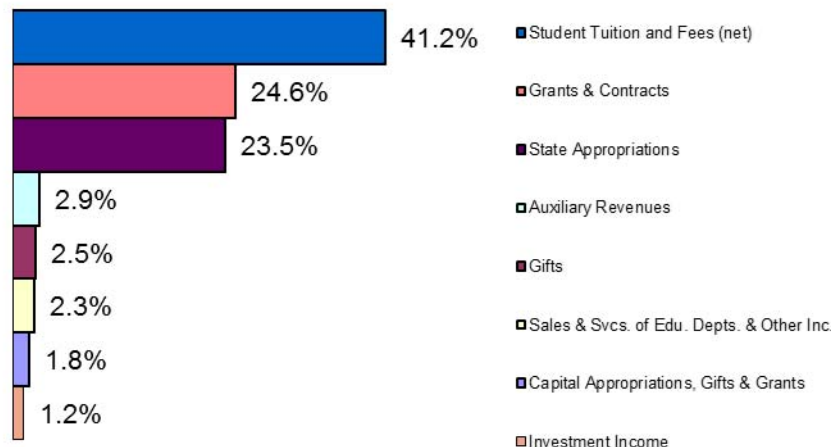
The table below depicts how declining state funding in the past three decades has forced universities to shift the burden for funding the cost of higher education to students and their families.

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
2015	193,177,031	85,982,652	0.45

The net state appropriations received by the University per dollar of gross tuition revenue has declined 79% from \$2.14 in 1980 to \$0.45 in 2015. Despite the efforts and intentions made at the state level to support higher education, 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's mission. 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 placed a greater share of the total costs of education on the students. 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, 2015.



State appropriations increased slightly from \$85.1 million in 2014 to \$86 million in 2015. This compares to a \$3.8 million decrease from \$88.9 million in 2013 to \$85.1 million in 2014. Removing the impact of OhioLINK's \$5.9 million reduction in appropriations from \$6.1 million in 2013 to \$0.2 million in 2014 results in an overall increase in state appropriations for the University of \$2.1 million in 2014. The University does not expect any dramatic changes in its level of funding and is encouraged by the increase in the total pool of funds provided by the State for 2016 and 2017.

Student tuition and fees, net were \$150.6 million, \$144.2 million, and \$142.5 million, in 2015, 2014, and 2013, respectively, which provided an increase of 4.4% from 2014 to 2015 and 1.2% from 2013 to 2014. Tuition increased 2.2% for all degree levels at both campuses in both 2015 and 2014. Tuition revenue before the application of scholarships (financial aid applied to students' bills) was up over 5% from 2014 to 2015 due to both the increased tuition rates as well as increased international and advanced level enrollments. The increase in gross tuition revenue was offset slightly by an increase in scholarships. 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.

Grants and contracts were \$90 million in 2015, decreasing \$9 million from \$99 million in 2014. The \$99 million recorded in 2014 included \$11.7 million of OhioLINK revenue. Without the impact of OhioLINK, the University actually experienced a \$2.7 million increase in grants and contracts revenue in 2015. The \$30 million decrease from \$129 million in 2013 to 2014 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.

Sales and services, which are primarily revenues generated from specific departmental sales activities to organizations external to the University, were \$5.6 million, \$5.9 million, and \$6.4 million for the years ended June 30, 2015, 2014, and 2013, 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 slight \$0.3 million decrease in 2015 revenue was the result of a decline in Boonshoft School of Medicine revenue whereas the \$0.5 million decrease in 2014 was led by a drop in conference and events income.

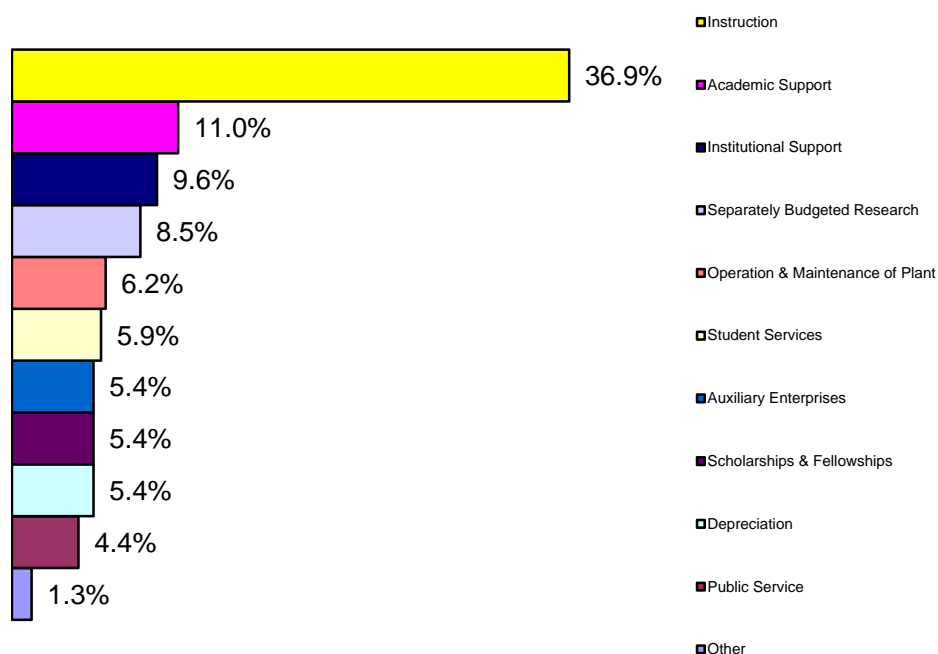
Auxiliary revenues were \$10.5 million, \$9.9 million, and \$15.2 million, for the years ended June 30, 2015, 2014, and 2013, respectively. Auxiliary enterprises are comprised of residence life and housing, bookstores, hospitality (dining and catering) services, vending, parking and transportation, intercollegiate athletics, the Student Union, and the Nutter Center. A large portion of the \$0.6 million growth in revenues in 2015 is attributable to increased housing occupancy rates as students joined STEMCity, a learning community for students in science and math disciplines. The \$5.3 million decrease in revenues in 2014 occurred largely

as a result of the change in the hospitality services model whereby the University received commission income from the service provider instead of direct sales from food service revenues. Although sales revenues were lower, corresponding expenses related to hospitality services were also reduced by a comparable amount in 2014.

Investment income was \$4.3 million in 2015, \$17.6 million in 2014 and \$15.8 million in 2013. Although investment income exceeded budget by \$9.1 million in 2014, earnings fell \$3.9 million short of the investment income budget in 2015. Despite unpredictable markets, the university's investment returns were consistent with performance benchmarks as defined by the university's Investment Policy Statement. 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 more proactively respond to market changes in order to better capitalize on investment opportunities. Through a competitive bidding process the University selected a new investment advisor. University management and the investment advisor updated the Investment Policy Statement and transitioned the portfolio to a fund of funds approach utilizing a discretionary management model in 2015. The resulting portfolio utilizes a blend of traditional asset classes such as equities and fixed income with new positions in funds designed to reduce volatility and risk. 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 \$6.4 million in 2015, a decrease of \$6.5 million from the \$12.9 million realized in 2014. This decrease was a result of both lower capital appropriations from the State of Ohio and lower capital grants and gifts. In 2015, the capital appropriations the University received from the State of Ohio included: \$3.6 million for the construction of the NEC Building, \$1 million for improvements at the Lake Campus, \$0.3 million for the Student Success Center as well as additional, smaller amounts for classroom modernization and maintenance, data analytics and visual environment, and manufacturing center robotics. In 2014, capital appropriations, gifts and grants included \$7.5 million for the construction of the NEC Building and a non-recurring \$2.7 million gift of software for use by students in the classroom.

The following is a graphic illustration of expenses by function for the year ended June 30, 2015.



Total operating expenses were \$382.2 million in 2015 as compared to \$384.2 million in 2014 and \$414.5 million in 2013. The \$2 million decrease in 2015 represents a 0.5% decrease in operating expenses. However, the transition of OhioLINK represents an \$11.9 million decrease in operating expenses from 2014

to 2015. Therefore, without OhioLINK, operating expenses actually increased \$9.9 million representing a 2.7% increase. The overall increase in 2015 operating expenses (without OhioLINK) is principally attributable to a \$14.7 million increase in salaries and benefits which continue to represent the largest portion of operating costs for the University. Salaries and benefits were 70% of total operating expenses in 2015 as compared to 65.9% and 60.5% in 2014 and 2013, respectively. During 2015, the University personnel related expenses increased due to a heightened investment in Student Access to Success initiatives which included advising, tutoring, program and administrative support in efforts to increase enrollment and retention as well as degree and course completion. During 2015, the University continued expense optimization efforts in the areas of energy conservation, health and wellness initiatives, enterprise print management, and strategic contract management. Total operating expenses decreased \$30.3 million from 2013 to 2014, with \$26.1 million of the decrease related to the transition of OhioLINK. A large portion of the remaining reduction in expenses was attributable to the change in hospitality services contract.

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, 2015.

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

	2015	2014	2013
	(All dollar amounts in thousands)		
Cash provided (used) by:			
Operating activities	\$ (131,487)	\$ (123,658)	\$ (145,633)
Noncapital financing activities	122,847	118,003	124,389
Capital and related financing activities	(57,037)	(45,683)	11,280
Investing activities	50,965	73,683	12,364
Net increase (decrease) in cash and cash equivalents	(14,712)	22,345	2,400
Cash and cash equivalents-beginning of year	44,356	22,011	19,611
Cash and cash equivalents-end of year	\$ 29,644	\$ 44,356	\$ 22,011

Total cash and cash equivalents decreased \$14.7 million in 2015. Net cash used by operating activities increased \$7.8 million from 2014. Cash flow from total grants and contracts increased \$1.6 in 2015. Payments to suppliers decreased \$2.4 million. Cash inflows from tuition and fees increased \$2 million. Although tuition revenue was higher in 2015 than 2014, the cash impact was offset by higher student accounts receivables. Cash outflows for salaries and benefits increased \$14.7 million. Cash inflows from auxiliary sales increased \$2.6 million as a result of increased unearned revenues from advanced ticket sales and a decrease in accounts receivable. These factors combined with decreased cash inflows from sales and services resulting from an increase in receivables to create the increase in cash used by operating activities. Cash flow from noncapital financing activities increased \$4.8 million from \$118 million in 2014 to \$122.8 million in 2015. The increase is attributable to a \$1.5 million change in direct lending activities and a \$2.5 million increase in cash flow from gifts. The University experienced an increase in cash outflow for capital related financing activities from \$45.7 million in 2014 to \$57 million in 2015. This \$11.3 million increased use of cash is largely due to an increase in purchases of capital assets. The \$51 million of cash flows from investing activities is related to the use of bond proceeds held as restricted cash and investments to fund project construction and the use of cash for strategic initiatives. The \$22.3 million increase of cash and cash equivalents from 2013 to 2014 was a combination of the impact of the OhioLINK transition, the classification of bond proceeds for capital projects, and spending of reserves in pursuit of the university's mission.

Capital Assets and Debt

Capital Assets

The University had approximately \$366 million invested in capital assets, net of accumulated depreciation of \$299.3 million at June 30, 2015. The University had approximately \$332.9 million invested in capital assets, net of accumulated depreciation of \$282.2 million at June 30, 2014. Depreciation expense for the years ended June 30, 2015 and 2014 was \$20.9 million and \$21.5 million, respectively.

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

	2015	2014	2013
	(All dollar amounts in thousands)		
Land, land improvements and infrastructure	\$ 43,025	\$ 42,267	\$ 35,916
Buildings	275,849	223,972	224,384
Machinery and equipment	20,488	20,797	22,335
Library books and publications	15,802	16,545	17,014
Construction in progress	10,831	29,316	5,375
Total capital assets - net	<u>\$ 365,995</u>	<u>\$ 332,897</u>	<u>\$ 305,024</u>

The university's Dayton campus was affected by a large volume of capital projects – new construction and renovations - during 2015. The second phase of the energy efficiency project continued resulting in \$2 million of capitalized land, land improvements, and infrastructure, \$1.4 million of capitalized building improvements (included in buildings above) and \$0.2 million of capitalized machinery and equipment. Both the NEC Building and the Student Success Center, which were initiated in 2013, were completed in 2015. Construction on the NEC Building resulted in increases of \$18.7 million to buildings and \$1.2 million of machinery and equipment in 2015. The progress on the Student Success Center during 2015 increased buildings by \$8.5 million and machinery and equipment by \$1.9 million. The completion of these buildings resulted in a \$21.7 million transfer of construction in progress to buildings: \$16.2 million for the NEC Building and \$5.5 million for the Student Success Center. The renovation and expansion of the Creative Arts Center resulted in a \$6 million increase in capitalized buildings and a \$2.8 million increase in construction in progress. Additional building improvements and construction in progress in 2015 included \$1 million of improvements at the Lake Campus, \$0.8 million for the Veterans and Military Center, and \$0.8 million for a coffee shop managed by students of the Raj Soin College of Business. Major capital activity in 2014 included progress for the second phase of energy efficiencies of \$15.8 million, the NEC Building of \$14.3 million, and the Student Success Center of \$5.5 million.

Debt

The University did not enter into any new debt agreements during 2015. 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 current 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 expansion of the Creative Arts Center. As of June 30, 2015 and 2014, \$4.5 million and \$29.6 million, respectively, of bond proceeds and premiums remain unspent and available. 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. The Student Success Center was completed in the spring of 2015. The facility will celebrate a grand opening in fall 2015. As of June 30, 2015 and 2014 unspent bond proceeds and premiums provide a balance of \$3.7 million and \$9.8 million, respectively, 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 more than \$35 million over a 15 year period which well exceeds the debt service on the notes. As of June 30, 2015 and 2014, \$0.7 million and \$4.8 million, respectively, is available for funding of this project.

Outstanding debt was \$100 million, \$106.8 million, and \$114.4 million at June 30, 2015, 2014, and 2013, respectively. The 2015 balance of \$100 million includes \$77.5 million of outstanding bonds and \$22.5 million of outstanding notes. The 2014 balance of \$106.8 million includes \$82.7 million of outstanding bonds, \$24 million of outstanding notes, and \$0.1 million of equipment leases. The University maintains a debt rating from Moody's Investors Service of A1, outlook stable.

Concluding Thoughts

During 2015, the University continued its Empower strategic plan pursuing its mission of transforming the lives of the students and communities it serves. The strategic plan calls for enhancement of academic quality and program distinctiveness; student access and diversity; research and innovation; community and economic development; and essential human, fiscal and physical resources. Progress in the pursuit of the strategic plan is evidenced through examples such as the development of academic programs including new doctoral programs in organizational studies and interdisciplinary applied science and mathematics; increased cyber security programs; additional programs offered at Lake Campus; improvements to the distance learning infrastructure; increases in grant and contract activity; initiatives for Student Access to Success; service learning classes; and employee development through Human Resource chats and expanded supervisor training.

The university's mission and strategic plan guide the University as it continues to address several challenges. These challenges include the affordability of a college education, student enrollment and retention, and competing needs for limited resources. Although state funding for higher education has rebounded slightly, the increased allocation to universities is not enough to dramatically impact the costs of higher education that must then be borne by students and their families. The University is acutely aware of this financial pressure and is committed to providing cost saving opportunities to students. Some of the options currently being evaluated involve class scheduling that enables students to graduate in four years or less; the increased use of electronic or alternative textbooks, as well as increased opportunities for earning credit for work and/or military experience. The success of *Rise. Shine. The Campaign for Wright State University* will also positively impact the affordability for our students through its objective of increased scholarship funding.

Another challenge the University faces is pressure related to enrollment and retention of students. Although enrollment was slightly up in fall 2014, demographic information indicates the number of Ohio high school students graduating annually in the near future is expected to drop. This creates pressure for Ohio schools to compete for the declining number of graduates. In order to mitigate these risks, Wright State University has been actively developing strategies designed to attract students and to increase their access to success. The University enrollment management strategy has aggressively marketed our institution to area high schools and subtly, but effectively, increased acceptance standards. By purposefully managing tuition increases, the University continues to competitively position itself in the market providing a value proposition unmatched by surrounding institutions. The University has also invested significant resources in Student Access to Success initiatives aimed at increasing student engagement and recognizing and addressing the developmental needs of at-risk students. Perhaps the most notable of these measures is the completion of the Student Success Center which offers advising, tutoring, and assistance in areas such as math and language arts. The focus on student success will result in increased course and degree completion, affording the University with an increasing share of state subsidy; students with the skills necessary to succeed and progress in their academic and professional careers; and the state economy with a highly motivated, engaged and prepared workforce. The university's enrollment strategy also incorporates an emphasis on attracting transfer students and increasing graduate level enrollment as well as nonresidents of Ohio, both domestic and international. Additional impact is expected from a new collaborative initiative in which university alumni are incorporated into the recruiting process.

In addition to low levels of financial support from the State and enrollment and retention pressures, the University struggles with competing pressures for its limited resources. In order to address this burden, the University has developed strategies to address three key areas: personnel expenses, space needs and capital expenditures. Personnel issues are being addressed through a Strategic Hire process that will utilize anticipated retirements and normal attrition to critically evaluate staffing needs through a review of programs and service delivery. The University is also seriously addressing its use of available space and determining the most effective utilization of space in meeting the needs of the campus as the University pursues its mission. The University is evaluating its capital needs through the development of a prioritized facilities and academic master plan and enhancing its processes for managing and financing its capital needs. In addition to these initiatives, the University continues to actively pursue cost saving and revenue enhancing initiatives such as health care cost containment; energy efficiencies; increased research collaboration and revenue; and shared services with other universities and local governments; and partnerships with businesses.

Although the University experienced significant challenges in fiscal year 2015, it is well positioned to address these challenges in 2016 and future years. The University is dedicated to strengthening its financial operations while continuing to provide world class service and support to our students and communities. We fully understand the potential impacts we have; and we are committed to the critical role we play in the success of our students and our economy.

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the University adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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, the Schedule of the Wright State University Proportionate Share OPERS Net Pension Liability and Contributions on page 62, and the Schedule of Wright State University Proportionate Share STRS Net Pension Liability and Contributions on page 63, 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

Crowe Horwath LLP

Columbus, Ohio
October 15, 2015

WRIGHT STATE UNIVERSITY
Statements of Net Position
June 30, 2015 and 2014

	2015		2014	
	University	Foundation	University	Foundation
Current assets:				
Cash and cash equivalents	\$ 20,785,641	\$ 1,578,574	\$ 13,925,525	\$ 3,273,096
Restricted cash and cash equivalents	8,857,966		30,430,111	
Short-term investments	20,344,411		1,950,428	
Restricted short-term investments			13,754,172	
Accounts receivable (net of allowance for doubtful accounts of \$1,696,000 in 2015 and \$1,756,000 in 2014 - Note 3)	35,081,395	189,449	36,108,940	212,022
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$3,200 in 2015 and \$800 in 2014)		3,464,369		1,871,225
Loans receivable (net of allowance for doubtful loans of \$3,574,000 in 2015 and \$3,460,000 in 2014)	4,370,739		4,580,948	
Inventories	113,893		237,588	
Prepaid expenses	1,125,006		668,848	
Advanced charges	3,779,654		4,093,334	
Total current assets	<u>94,458,705</u>	<u>5,232,392</u>	<u>105,749,894</u>	<u>5,356,343</u>
Noncurrent assets:				
Restricted investments				
Gifts and pledges receivable (net of allowance for uncollectible pledges of \$83,400 in 2015 and \$66,500 in 2014)		9,259,871		5,895,175
Loans receivable (net of allowance for doubtful loans of \$111,000 in 2015 and \$115,000 in 2014)	10,996,599		11,408,770	
Other assets	146,669	646,787	136,000	641,594
Other long-term investments	69,102,854	119,659,876	120,190,660	120,150,869
Capital assets, net (Note 4)	365,995,112	2,604,131	332,897,094	2,674,455
Total noncurrent assets	<u>446,241,234</u>	<u>132,170,665</u>	<u>464,632,524</u>	<u>129,362,093</u>
Total assets	<u>540,699,939</u>	<u>137,403,057</u>	<u>570,382,418</u>	<u>134,718,436</u>
Deferred outflows of resources:				
Bond refunding	413,101		442,608	
Pension related (Note 7)	18,908,861			
Total assets and deferred outflows of resources	<u>\$ 560,021,901</u>	<u>\$ 137,403,057</u>	<u>\$ 570,825,026</u>	<u>\$ 134,718,436</u>
Current liabilities:				
Accounts payable trade and other	\$ 13,614,401	\$ 307,618	\$ 16,931,396	\$ 274,824
Accounts payable to Wright State University		1,117,925		1,115,440
Accrued liabilities	14,912,152		14,220,340	
Unearned revenue (Note 1)	28,455,914		23,903,594	
Refunds and other liabilities	1,525,078	2,026,895	740,393	1,997,880
Current portion of long-term liabilities (Note 5)	12,995,963	812,533	12,837,028	1,021,108
Total current liabilities	<u>71,503,508</u>	<u>4,264,971</u>	<u>68,632,751</u>	<u>4,409,252</u>
Noncurrent liabilities:				
Unearned revenue (Note 1)	2,241,412		1,691,915	
Net pension liability (Note 7)	228,135,876			
Long-term liabilities (Note 5)	103,136,177	316,267	110,532,140	329,792
Total noncurrent liabilities	<u>333,513,465</u>	<u>316,267</u>	<u>112,224,055</u>	<u>329,792</u>
Deferred inflows of resources (Note 7)	<u>33,120,016</u>			
Total liabilities and deferred inflows of resources	<u>438,136,989</u>	<u>4,581,238</u>	<u>180,856,806</u>	<u>4,739,044</u>
Net Position:				
Net investment in capital	275,425,521	1,804,131	270,843,590	1,674,455
Restricted - nonexpendable:				
Instruction and departmental research		14,077,486		13,994,302
Separately budgeted research		8,365,019		8,344,144
Public service		198,376		194,567
Academic support		778,259		696,840
Student services		126,181		125,855
Operation and maintenance of plant		1,669,583		1,247,294
Scholarships and fellowships		17,508,505		16,598,338
Auxiliaries		261,411		259,988
Restricted - expendable:				
Instruction and departmental research	8,122	26,798,350	8,054	26,768,604
Separately budgeted research		3,872,008		4,159,243
Public service		545,791		740,506
Academic support		14,532,045		15,246,663
Student services		429,258		341,904
Institutional support		12,265,014		7,754,591
Operation and maintenance of plant		1,332,600		1,196,143
Scholarships and fellowships		22,245,584		22,785,041
Loans	17,565,242		17,342,965	
Auxiliaries		192,659		207,133
Unrestricted	<u>(171,113,973)</u>	<u>5,819,559</u>	<u>101,773,611</u>	<u>7,643,781</u>
Total net position	<u>121,884,912</u>	<u>132,821,819</u>	<u>389,968,220</u>	<u>129,979,392</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 560,021,901</u>	<u>\$ 137,403,057</u>	<u>\$ 570,825,026</u>	<u>\$ 134,718,436</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, 2015 and 2014

	2015		2014	
	<u>University</u>	<u>Foundation</u>	<u>University</u>	<u>Foundation</u>
OPERATING REVENUES				
Student tuition and fees (net of scholarship allowances of \$42,595,000 in 2015 and \$39,258,000 in 2014)	\$ 150,582,031	\$	\$ 144,231,135	\$
Federal grants and contracts	29,043,070		29,312,603	
State grants and contracts	4,009,806		6,249,209	
Local grants and contracts	300,599		347,075	
Nongovernmental grants and contracts	30,491,789		37,006,335	
Sales and services	5,570,593		5,883,282	
Auxiliary enterprises sales (net of scholarship allowances of \$2,271,000 in 2015 and \$1,958,000 in 2014)	10,481,929		9,914,712	
Gifts and contributions		11,572,187		9,487,402
Other operating revenues	2,984,769		2,939,971	
Total operating revenues	233,464,586	11,572,187	235,884,322	9,487,402
OPERATING EXPENSES				
Educational and general:				
Instruction and departmental research	142,835,248		138,327,312	
Separately budgeted research	32,992,379		32,452,899	
Public service	16,994,932		16,547,495	
Academic support	42,463,976		52,294,198	
Student services	23,001,854		21,018,558	
Institutional support	37,150,009	1,464,991	36,341,106	678,448
Operation and maintenance of plant	23,852,758		23,953,747	
Scholarships and fellowships	21,016,542		20,714,859	
Total educational and general	340,307,698	1,464,991	341,650,174	678,448
Auxiliary enterprises	20,988,375		21,052,874	
Depreciation	20,948,678	116,887	21,479,211	67,842
Total operating expenses	382,244,751	1,581,878	384,182,259	746,290
Operating (loss)/income	(148,780,165)	9,990,309	(148,297,937)	8,741,112
NONOPERATING REVENUES (EXPENSES):				
State appropriations	85,982,652		85,147,583	
Federal grants	22,776,829		22,701,440	
State grants	3,342,629		3,419,479	
Gifts	9,110,129		7,351,158	
Investment income (net of investment expenses of \$511,000 in 2015 and \$201,000 in 2014 for WSU and \$726,254 in 2015 and \$702,031 in 2014 for Foundation)	4,304,237	2,667,657	17,550,178	13,311,050
Interest on capital asset-related debt	(3,176,637)		(3,401,986)	
Payments to Wright State University		(9,815,539)		(8,027,733)
Other nonoperating (expenses)	(2,037,468)		(690,272)	
Net nonoperating revenues (expenses)	120,302,371	(7,147,882)	132,077,580	5,283,317
Gain/(loss) before other revenues, expenses, gains or losses	(28,477,794)	2,842,427	(16,220,357)	14,024,429
Capital appropriations from the State of Ohio	5,505,336		8,319,099	
Capital grants and gifts	947,537		4,630,336	
Increase (decrease) in net position	(22,024,921)	2,842,427	(3,270,922)	14,024,429
NET POSITION				
Net position - beginning of year	389,968,220	129,979,392	393,239,142	115,954,963
Effect of adoption of GASB 68	(246,058,387)			
Net position - beginning of year, as restated	143,909,833			
Net position - end of year	\$ 121,884,912	\$ 132,821,819	\$ 389,968,220	\$ 129,979,392

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2015</u>	<u>2014</u>
Student tuition and fees	\$ 150,291,745	\$ 148,263,785
Federal, state, local, and nongovernmental grants and contracts	61,019,417	59,416,286
Sales and services of educational and other departmental activities	5,692,188	8,117,770
Payments to employees	(208,080,503)	(195,714,612)
Payments for benefits	(59,777,731)	(57,395,869)
Payments to suppliers	(72,810,054)	(75,217,329)
Payments for scholarships and fellowships	(21,304,810)	(22,107,393)
Student loans issued	(2,688,275)	(2,671,127)
Student loans collected	3,310,655	3,461,247
Student loan interest and fees collected	545,960	442,575
Auxiliary enterprise sales	12,313,970	9,746,545
Net cash (used) by operating activities	(131,487,438)	(123,658,122)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	85,982,652	85,147,583
Direct lending receipts	99,881,132	103,882,964
Direct lending disbursements	(98,476,818)	(103,943,229)
Grants for noncapital purposes	26,119,458	26,120,919
Gifts	9,340,500	6,794,560
Net cash provided by noncapital financing activities	122,846,924	118,002,797
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations from the State of Ohio	10,104,511	3,473,531
Capital grants and gifts received	861,897	1,872,911
Purchases of capital assets	(58,369,348)	(40,361,545)
Sales of capital assets	36,938	12,937
Principal paid on capital debt and leases	(6,527,321)	(7,274,926)
Interest paid on capital debt and leases	(3,486,344)	(3,759,934)
Bond interest subsidy	343,100	354,544
Net cash (used) by capital and related financing activities	(57,036,567)	(45,682,482)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	347,852,176	105,072,232
Interest on investments	29,658,858	11,940,513
Purchase of investments	(326,545,982)	(43,330,187)
Net cash provided by investing activities	50,965,052	73,682,558
Net (Decrease)/Increase in Cash and Cash Equivalents	(14,712,029)	22,344,751
Cash and Cash Equivalents - Beginning of Year	44,355,636	22,010,885
Cash and Cash Equivalents - End of Year	\$ 29,643,607	\$ 44,355,636

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Operating loss	\$ (148,780,165)	\$ (148,297,937)
Depreciation and amortization	20,657,983	21,297,229
Provision for doubtful accounts	1,247,785	1,095,172
Provision for doubtful loans	343,509	535,556
Pension expense	(3,711,356)	
Other		353,660
Changes in assets and liabilities:		
Accounts receivable	(6,534,831)	3,426,506
Inventory	123,695	105,198
Prepaid expenses	(406,791)	11,749,657
Advanced charges	313,680	(1,182,147)
Other assets	(10,669)	409,518
Accounts payable	(529,252)	(1,801,615)
Accrued liabilities	691,812	744,544
Unearned revenue	4,443,606	(11,720,463)
Compensated absences	(400,000)	(400,000)
Refunds and other liabilities	784,685	(227,564)
Loans to students and employees	278,871	254,564
Net cash (used) by operating activities	\$ <u>(131,487,438)</u>	\$ <u>(123,658,122)</u>

Noncash Transactions:

Donated Capital Assets	\$ <u>1,064,053</u>	\$ <u>4,872,318</u>
Total Noncash Transactions	\$ <u>1,064,053</u>	\$ <u>4,872,318</u>

See Accompanying Notes to Financial Statements

WRIGHT STATE UNIVERSITY

Notes to Financial Statements

Years Ended June 30, 2015 and 2014

(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.

New Accounting Standards Adopted

In fiscal year 2015, the University adopted new accounting standard GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* issued June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements

Wright State University

Notes to Financial Statements
(Continued)

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 statement establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and pension related expenses. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

The University also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* in 2015. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This provision is required to be applied simultaneously with GASB No. 68.

The principal effect to the University of the adoption of GASB No. 68 and GASB No. 71 resulted in recording a net pension liability on the Statement of Net Position. The University has reflected these accounting changes as required by the standard. The areas of substantial impact on the university's Statement of Net Position as of June 30th are as follows:

	<u>2015</u>
Deferred outflows of resources – pension	\$ 18,908,861
Deferred inflows of resources – pension	\$ 33,120,016
Net pension liability	\$ 228,135,876

The information necessary to restate the Statement of Net Position as of June 30, 2014 and the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2014 for the effects of the initial implementation of GASB No. 68 and GASB No. 71 is not available. Therefore the University has not restated 2014 balances. However, the beginning Net Position as of July 1, 2014 has been adjusted as follows:

	<u>2015</u>
Net position - beginning of year, as originally reported	\$ 389,968,220
Effect of adoption of GASB 68 and 71	<u>(246,058,387)</u>
Net position - beginning of year, as restated	<u>\$ 143,909,833</u>

Details of the effect of the adoption of GASB Statements No. 68 and No. 71 on the university's beginning Net Position as of July 1, 2014 for the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS) are as follows:

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Effect of adoption of GASB 68 and 71			
Net pension liability, July 1, 2014	\$ (53,554,940)	\$ (206,656,410)	\$ (260,211,350)
Deferred outflows, July 1, 2014	<u>3,394,015</u>	<u>10,758,948</u>	<u>14,152,963</u>
Total effect of GASB adoption	<u>\$ (50,160,925)</u>	<u>\$ (195,897,462)</u>	<u>\$ (246,058,387)</u>

Notes to Financial Statements
(Continued)

Net position

- Net investment in capital comprises total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets, and related debt.
- Restricted net position consists of restricted assets, deferred outflows of resources, liabilities, and deferred inflows of resources related to those assets.
 - Nonexpendable restricted net position is comprised primarily of gifts which are subject to external restrictions requiring the principal be invested in perpetuity and 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. This net position is not subject to external restrictions. Management or the Board of Trustees designates most of the unrestricted net position 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 net position and unrestricted net position are available.

Cash and Cash Equivalents

Cash and cash equivalents include amounts held in the State Treasury Asset Reserve of Ohio (STAROhio). In addition, external investment managers may 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.

Notes to Financial Statements
(Continued)

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 moveable equipment with an estimated useful life of more than one year is \$5,000. Using the straight-line method, capital assets are depreciated over their estimated useful lives; generally, 40 years for buildings, 30 years for land improvements and infrastructure, 15 years for library books and publications, and 5 to 10 years for machinery and equipment. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research, and public service. These collections are not encumbered or sold for financial gain. Consequently, such collections are not recognized in the financial statements.

Effective with the fiscal year ended June 30, 2015, the capitalization threshold for the purchase of moveable equipment may be waived when the acquisition is related to a major project. Moveable equipment items attributable to a major project may be capitalized and depreciated over a 5 year useful life. A major project is defined as a project in which: (1) the total construction cost (building improvement, land improvement, infrastructure, etc.) is anticipated to be \$100,000 or more and the moveable capital equipment expenditures are expected to be at least \$100,000; or (2) although the construction costs are anticipated to be less than \$100,000, the total project costs, including moveable equipment, are anticipated to be at least \$200,000. This change in estimate resulted in the capitalization of an additional \$4,959,121 moveable equipment and \$791,676 construction in progress and increased depreciation expense of \$82,652 during the year ended June 30, 2015. The effect on the change in net position was \$5,668,145.

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 includes employees currently eligible to receive termination benefits and those identified as probable of receiving payment in the future.

Unearned Revenue

Unearned revenue primarily consists 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 \$8.3 million and \$17.6 million, respectively, for the year ended June 30, 2015 and \$8.2 million and \$14.4 million, respectively, for the year ended June 30, 2014.

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 and pension related balances.

Deferred inflows represent an acquisition of resources that apply to a future period and will not be recognized as revenue until that time. Deferred inflows in the university's financial statements are related to pensions and are further explained in Note 7.

Wright State University

Notes to Financial Statements (Continued)

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS) and additions to/deductions from their fiduciary net positions have been determined on the same basis as reported by these pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

OhioLINK

Prior to the fiscal year ended June 30, 2014, 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. As a result of the transition, a portion of OhioLINK's revenues and expenses for fiscal year ended June 30, 2014 are included in the university's financial statements. However, none of OhioLINK's revenues and expenses for fiscal year ended June 30, 2015 are included in the university's financial statements. As a result, the university's revenues and expenses declined in 2015.

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.

(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

Wright State University

Notes to Financial Statements (Continued)

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, 2015 and 2014, the university's bank balances are \$25,927,565 and \$48,160,756, respectively. Of these balances, \$20,180,275 and \$45,818,924, 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:

	2015	2014
Petty cash	\$ 36,798	\$ 48,181
Demand deposits	18,582,834	43,396,269
Money market funds	3,881,912	769,988
Total	\$ 22,501,544	\$ 44,214,438

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

Investments

Wright State University's Board of Trustees approved a revision to the university's Investment Policy Statement in October 2014. The revised policy establishes a discretionary model in which a fiduciary manager is responsible for investing the university's portfolio utilizing a fund of funds approach. Although this change results in a shift in classification of investment assets, as shown in the table below, the new Investment Policy continues to provide for the prudent investment of the university's assets in a manner which will meet three main objectives: safety, liquidity and return on investment. The Investment Policy parallels state law which requires an amount equal to at least twenty-five percent of the university's investment portfolio be invested in securities of the United States government or one of its agencies or instrumentalities, the treasurer of the State of Ohio's pooled investment program, obligations of the State of Ohio, or any political subdivision of the State of Ohio, certificates of deposit of any national bank located in the State of Ohio, written repurchase agreements with any eligible Ohio financial institution that is a member of the federal reserve system or federal home loan bank, money market funds or bankers' acceptances maturing in two hundred seventy days or less which are eligible for purchase by the federal reserve system. The fair value of investments at June 30 is as follows:

Wright State University

Notes to Financial Statements
(Continued)

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

Description	Fair Value	
	2015	2014
U.S. Treasury securities	\$	\$ 3,270,857
U.S. Agency securities		15,181,452
Stock and traded securities	821,444	717,447
Corporate bonds and notes		5,483,742
State Treasury Asset Reserve of Ohio	7,142,063	141,198
Private equity and Limited Partnerships	17,732,751	15,059,286
Equity funds	38,922,420	62,418,850
Bond funds	31,967,450	31,209,264
Negotiable Certificates of Deposit		2,551,162
Other	3,200	3,200
Total	\$ 96,589,328	\$ 136,036,458

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 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. The Investment Policy has established asset allocations and permissible asset classes in order to minimize the various risks and the probability of loss. The new Investment Policy provides for a portfolio comprised of mutual funds managed in accordance with the diversification and industry concentration restrictions set forth in the Investment Company Act of 1940 which provides, among other things, protection in terms of concentration of risk for issuers and for industry sectors.

In fiscal year ended June 30, 2012, the University entered into a commitment with a private equity fund for \$5,000,000. As of June 30, 2015 and 2014, the University has an outstanding commitment of \$2,000,000 and \$3,050,000, respectively. The University entered into another private equity fund commitment during the year ended June 30, 2015 for \$4,900,000. As of the end of the year, the outstanding commitment is \$4,828,823.

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 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.

Wright State University

Notes to Financial Statements
(Continued)

The maturities of the university's interest bearing investments at June 30 are as follows:

Investment Type	2015 Investment Maturities (in years)			
	Fair Value	Less Than 1	1-5	6-10
Bond funds	\$ 31,967,450	\$ 6,380,762	\$ 13,963,649	\$ 11,623,039
Total	\$ 31,967,450	\$ 6,380,762	\$ 13,963,649	\$ 11,623,039

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	\$ 57,696,477	\$ 15,704,599	\$ 26,298,626	\$ 14,956,468	\$ 736,784

During the year ended June 30, 2014, the University invested 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, the total value of mortgage pass-through securities was \$2,371,908. As of June 30, 2015, the university's portfolio did not hold mortgage pass-through securities.

Credit Risk

Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. Credit quality information, commonly expressed in terms of credit ratings issued by nationally recognized rating organizations such as Moody's Investors Service; Standard & Poor's; or Fitch Ratings, provides a current depiction of potential variable cash flows and credit risk. 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 and Liquidity Pool accounts. The vast majority of portfolio mutual fund holdings are required to invest in investment grade funds. The only exception to this represents those funds held as part of the high yield strategy. The allocation for this is targeted at three percent of the overall portfolio.

Wright State University

Notes to Financial Statements
(Continued)

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

Investment Type	Total	2015 Credit Ratings		A	BBB/Baa	B
		AAA/Aaa	AA/Aa			
State Treasury Asset						
Reserve (STAROhio)	\$ 7,142,063	\$ 7,142,063	\$	\$	\$	\$
Bond funds	31,967,450		14,236,809	11,966,551	3,382,137	2,381,953
Total	<u>\$ 39,109,513</u>	<u>\$ 7,142,063</u>	<u>\$ 14,236,809</u>	<u>\$ 11,966,551</u>	<u>\$ 3,382,137</u>	<u>\$ 2,381,953</u>

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	<u>\$ 57,837,675</u>	<u>\$ 1,628,332</u>	<u>\$ 30,641,388</u>	<u>\$ 18,730,385</u>	<u>\$ 4,286,408</u>	<u>\$ 2,551,162</u>

During the year ended June 30, 2014, the University invested 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, the University held GNMA securities with a total value of \$219,820. The university's portfolio did not hold GNMA securities as of June 30, 2015.

As of June 30, 2014 the University held \$2,551,162 in Negotiable Certificates of Deposits. These certificates were held in the project trust account for the Series 2012 Bonds. Although the certificates were not rated, each certificate was issued by a member of the Federal Deposit Insurance Corporation and was 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, 2015 none of the university's investments were exposed to custodial, counterparty credit risk, whereas as of June 30, 2014, \$26,487,213 was 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 \$13,754,172 of the investments held by the counterparty were 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 through the use of mutual funds and other pooled asset portfolios transacted through national reputable brokerage firms protected by the Securities Investor Protection 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. Investments are

Wright State University

Notes to Financial Statements
(Continued)

diversified within asset classes with the intent to minimize the risk of losses to the portfolio. As previously mentioned, concentration of credit risk is managed at the mutual fund level as required by the Investment Company Act of 1940.

As of June 30, 2015, less than five percent of the university's portfolio is held in various Federal Home Loan Bank securities; however as of June 30, 2014, six percent (\$8,635,976) of the university's portfolio was held in various Federal Home Loan Bank securities. Of these securities, \$8,575,777 were restricted and held in debt related project funds as of June 30, 2014.

Foreign Currency Risk

Foreign currency risk relates to the possible adverse effects changes in exchange rates can have on the fair value of investments. As of June 30, 2015 and 2014, the university's exposure to foreign currency is limited to its investment in international mutual funds of \$15,344,015 and \$28,460,762, respectively.

Unspent Debt Proceeds

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

Debt	Date Issued	Amount Issued	Amount Unspent	
			2015	2014
Series 2011A	November 2011	\$ 55,240,000	\$ 4,477,279	\$ 29,590,177
Series 2012	November 2012	23,195,000	3,705,706	9,806,527
2013 Notes				
Series A & B	February 2013	25,000,000	674,981	4,787,579
Total		\$ 103,435,000	\$ 8,857,966	\$ 44,184,283

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, 2015 and 2014, \$8,857,966 and \$30,430,111, respectively, of the unspent debt related proceeds are classified as restricted cash and cash equivalents in the Statements of Net Position. The remaining unspent proceeds are classified as restricted short-term investments in the Statements of Net Position.

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Notes to Financial Statements
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For disclosure purposes the trust account balances as of June 30 are classified as follows:

	Year Ended June 30	
	2015	2014
Carry amount of deposits:		
Demand deposits	\$ 8,182,985	\$ 29,912,975
Money market funds	674,981	517,136
Total deposits	<u>8,857,966</u>	<u>30,430,111</u>
Fair value of investments:		
U.S. Treasury securities		
U.S. Agency securities		11,203,010
Negotiable Certificates of Deposit		2,551,162
Total investments		<u>13,754,172</u>
Total unspent bond proceeds	<u>\$ 8,857,966</u>	<u>\$ 44,184,283</u>

Investment Income

The composition of investment income is as follows:

	Year Ended June 30	
	2015	2014
Net interest and dividend income	\$ 1,832,627	\$ 1,750,435
Realized gains on sales	27,747,945	10,095,051
Unrealized gains/(losses) in fair value	(25,276,335)	5,704,692
Total	<u>\$ 4,304,237</u>	<u>\$ 17,550,178</u>

(3) Accounts Receivable

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

	2015	2014
Sponsor receivables	\$ 19,285,166	\$ 17,797,792
Student and student-related accounts	14,508,479	10,707,587
Wright State University Foundation	1,117,925	1,348,295
Interest receivable	76,252	154,537
State appropriations	257,845	4,855,876
Other, primarily departmental sales and services	<u>1,531,728</u>	<u>3,000,853</u>
Total	36,777,395	37,864,940
Less: Allowance for doubtful accounts	<u>1,696,000</u>	<u>1,756,000</u>
Net accounts receivable	<u>\$ 35,081,395</u>	<u>\$ 36,108,940</u>

Wright State University

Notes to Financial Statements
(Continued)

(4) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 is summarized as follows:

	Balance 7/1/2014	Additions	Retirements	Transfers	Balance 6/30/2015
Land	\$ 4,051,702	\$	\$	\$	\$ 4,051,702
Land improvements and infrastructure	56,351,309	2,574,017			58,925,326
Buildings	388,537,227	38,996,096	(12,778)	22,187,555	449,708,100
Machinery and equipment	83,010,539	7,581,964	(3,159,398)		87,433,105
Library books and publications	53,833,454	1,503,864	(948,315)		54,389,003
Construction in progress	29,315,594	5,803,369	(2,100,000)	(22,187,555)	10,831,408
Total	615,099,825	56,459,310	(6,220,491)		665,338,644
Less accumulated depreciation:					
Land improvements and infrastructure	18,135,679	1,816,324			19,952,003
Buildings	164,565,449	9,299,110	(5,910)		173,858,649
Machinery and equipment	62,213,130	7,586,052	(2,853,652)		66,945,530
Library books and publications	37,288,473	2,247,192	(948,315)		38,587,350
Total accumulated depreciation	282,202,731	20,948,678	(3,807,877)		299,343,532
Capital assets, net	\$ 332,897,094	\$ 35,510,632	\$ (2,412,614)	\$	\$ 365,995,112

Wright State University

Notes to Financial Statements
(Continued)

	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)

(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, 2015 and 2014 is summarized as follows:

	Beginning Balance 07/01/2014	Additions	Reductions	Ending Balance 06/30/2015	Current Portion
Bonds, notes and equipment lease purchase obligations:					
General obligation bonds	\$ 82,701,978	\$	\$ 5,254,707	\$ 77,447,271	\$ 5,413,708
Notes payable	23,994,495		1,532,303	22,462,192	1,559,578
Equipment leases	72,695		50,018	22,677	22,677
Total bonds, notes and equipment leases	106,769,168		6,837,028	99,932,140	6,995,963
Other liabilities:					
Compensated absences	16,600,000	5,372,543	5,772,543	16,200,000	6,000,000
Total other liabilities	16,600,000	5,372,543	5,772,543	16,200,000	6,000,000
Total long-term liabilities	\$ 123,369,168	\$ 5,372,543	\$ 12,609,571	\$ 116,132,140	\$ 12,995,963
	Beginning Balance 07/01/2013	Additions	Reductions	Ending Balance 06/30/2014	Current Portion
Bonds 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	\$ 131,402,042	\$ 4,468,055	\$ 12,500,929	\$ 123,369,168	\$ 12,837,028

Wright State University

Notes to Financial Statements
(Continued)

Bonds payable on June 30, 2015 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, 2015 are as follows:

Description	Maturity Dates	Interest Rates	Outstanding Principal	Unamortized Premium	Total
Bonds payable:					
Series 2003	2015-2016	5.00%	\$ 15,000	\$	15,000
Series 2009	2015-2019	3.94% - 5.31%	4,890,000		4,890,000
Series 2011A	2015-2031	4.00% - 5.00%	46,180,000	2,814,138	48,994,138
Series 2011B	2015-2023	2.13% - 3.75%	1,220,000		1,220,000
Series 2012	2015-2032	3.00% - 5.00%	20,640,000	1,688,133	22,328,133
Total bonds payable			72,945,000	4,502,271	77,447,271
Notes payable:					
Ohio Air Quality Development:					
Series A	2015-2024	1.78%	14,149,492		14,149,492
Series B	2024-2028	4.16%	8,312,700		8,312,700
Total notes payable			22,462,192		22,462,192
Equipment lease purchase obligations					
	2015-2016	3.84%	22,677		22,677
Total			\$ 95,429,869	\$ 4,502,271	\$ 99,932,140

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
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	5,393,620	2,866,002	8,259,622
2021-2025	28,717,904	11,177,509	39,895,413
2026-2030	28,138,809	4,948,046	33,086,855
2031-2032	5,155,000	289,250	5,444,250
Total	\$ 95,429,869	\$ 33,488,604	\$ 128,918,473

Interest expense incurred on indebtedness for the years ended June 30, 2015 and 2014 was \$3,176,637 and \$3,401,986, respectively. Interest expense on construction related debt of \$639,101 and \$589,366 was capitalized to the related projects in 2015 and 2014, respectively.

Wright State University

Notes to Financial Statements (Continued)

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% 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% federal rebate based on the Qualified Tax Credit Rate as of the bond sale date (4.6%). The benefit of this rebate has been assigned to the University. The rebates for the 2009 Bonds and the 2013B Note were \$338,208 and \$352,058 for the years ended June 30, 2015 and 2014, 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 \$3,226,705 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, 2015 and 2014 were \$2,117,296 and \$2,023,574, respectively.

Future minimum payments for all material operating leases as of June 30, 2015, are as follows:

2016	\$ 1,895,242
2017	456,283
2018	285,500
2019	239,383
2020	240,658
2021-2025	<u>1,311,215</u>
Total minimum lease payments	<u>\$ 4,428,281</u>

(7) Pension Plans

Pensions and Net Pension Liability

Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred payment basis - as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that have occurred already.

GASB No. 68 requires governmental employers to report a net pension liability on the Statement of Net Position. The net pension liability represents the university's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position (assets available to pay the pension benefits). The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Wright State University

Notes to Financial Statements (Continued)

GASB 68 assumes the net pension liability for each plan is solely the obligation of the employers because (1) the employers benefit from the employee services, and (2) state statute requires all liability to annually required payments. The University cannot control benefit terms or the manner in which pensions are financed; however, the University does receive the benefit of employee services in exchange for compensation including pension.

Plan Descriptions

University faculty are provided pensions through the State Teachers Retirement System of Ohio (STRS). Substantially all other university employees are provided pensions through the Ohio Public Employees Retirement System (OPERS). Both OPERS and STRS are statewide cost-sharing multiple employer defined benefit pension plans. Authority to establish and amend benefits for OPERS and STRS are authorized by Chapters 145 and 3307, respectively, of the Ohio Revised Code. Both OPERS and STRS issue publicly available financial reports. The OPERS report can be obtained at <https://www.opers.org/investments/cafr.shtml>. The STRS report can be obtained at <https://www.strsoh.org/publications/annualreports/cafrs.html>.

OPERS and STRS each offer three separate retirement plans: a defined benefit plan, a defined contribution plan, and a combined plan.

Defined Benefit Plans pay service retirement benefits using a fixed formula based on age, years of service and salary. In addition to service retirement, participants are eligible for disability and survivor benefits.

Defined Contribution Plans are member-directed, optional retirement plans available to new members. Participants allocate both member and employer contributions in investment choices provided by the plans. Retirement benefits are based on the member's account value.

Combined Plans offer features of both a defined benefit plan and a member-directed, defined contribution plan. In the combined plans, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit in addition to disability and survivor benefits.

Benefits Provided

OPERS and STRS defined benefit plans provide retirement, disability, annual cost-of-living adjustments, and survivor benefits for plan members and beneficiaries. The benefit provisions stated in the following paragraphs are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service.

OPERS Benefits

Under OPERS, retirement benefits are specific to each plan and members must meet the eligibility requirements based on their age and years of service within the plan. Retirement eligibility also varies by division and transition group.

Defined Benefit members who were eligible to retire before January 7, 2023 under law in effect prior to SB 343 are included in transition Groups A and B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

University members in transition Group A are eligible for full retirement benefits at any age with 30 years of service or at age 65 with 5 years of service. Group B members are eligible for full benefits at age 52 with 31 years of service, at any age with 32 years of service, or at age 66 with 5 years. Group C members are eligible for full benefits at age 55 with 32 years of service or at age 67 with 5 years of service. Members in Groups A and B are eligible for retirement with reduced benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Members

Notes to Financial Statements
(Continued)

of Group C are eligible for reduced retirement benefits at age 57 with 25 years of service or at age 62 with 5 years of service.

Under the Traditional Plan (the defined benefit plan), the annual benefit for Groups A and B is based on 2.2% of final average salary (FAS) multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. FAS for Group C is based on the average of the five highest years of earnings over a member's career. For the Combined Plan, the annual benefit is based on 1% of FAS multiplied by the years of service.

The OPERS law enforcement program consists of two separate divisions: Law Enforcement and Public Safety. Both groups of members are eligible for special retirement options under the Traditional Pension Plan and are not eligible to participate in the Member-Directed Defined Contribution or Combined plans. Public Safety Group members of Groups A and B may file an application for full retirement benefits at age 48 or older with 25 or more years of credited service or at age 52 or older with 15 or more years of credited service. Public Safety Group C is eligible for benefits at age 52 or older with 25 years or at age 56 or older with 15 years. Those members classified as Law Enforcement officers are eligible for full retirement as follows: for Group A, at age 52 or older with 15 or more years of credited service; for Group B, at age 48 or older with 25 years or at age 52 or older with 15 years of service; and for Group C, at age 48 or older with 25 years of service or at age 56 with 15 years of service. Annual benefits under both divisions are calculated by multiplying 2.5% of FAS by the actual years of service for the first 25 years of service credit, and 2.1% of FAS for each year of service over 25 years.

In the Combined Plan, the benefit formula for the defined benefit component of the plan for university members in transition Groups A and B applies a factor of 1% to the member's FAS for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1% to the member's FAS for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. These options also permit early retirement with a reduced benefit as early as age 48 under qualifying circumstances.

Members of the Defined Benefit and Combined Plans who become disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. Law enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Members participating in the Defined Contribution Plan are not eligible for disability benefits. Disability benefits are determined in the same manner as retirement benefits.

After a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment of 3% is provided on the member's base benefit. Members retiring under the Combined Plan receive an annual cost-of-living adjustment of 3% on the defined benefit portion of their benefit.

STRS Benefits

Members of the Defined Benefit plan are eligible for full retirement benefits at any age with 30 years of service or at age 65 with five years of service. Age and service requirements for full retirement benefits will increase effective August 1, 2015 and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026. Employees are eligible to retire with reduced benefits at age 60 with five years of qualifying service credit, at age 55 with 25 years of service, or with 30 years of service regardless of age. Age and service requirements for reduced retirement benefits will increase effective August 1, 2015 and will continue to increase periodically until age 55 with 29 years of service on August 1, 2021.

Under the Defined Benefit Plan, on or before July 31, 2015, benefits are based on 2.2% of FAS for the three highest years of earnings, multiplied by years of total Ohio service credit. The percentages

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Notes to Financial Statements (Continued)

increase if the member has 35 or more years of contributing service credit. Effective August 1, 2015, benefits are based on an annual amount equal to 2.2% of FAS for the five highest years of earnings, multiplied by all years of service. Under the Combined Plan, the balance in the member's defined contribution account plus an annual amount equal to 1% of FAS for the three highest paid years multiplied by years of total Ohio service credit. Effective August 1, 2015, FAS will be average of the member's five highest salary years.

A Defined Benefit Plan or Combined Plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing the individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability benefits. Disability benefits are determined in the same manner as retirement benefits.

Under the Defined Benefit Plan, members will receive an annual cost of living adjustment of 2% beginning on the fifth anniversary of retirement. Under the Combined Plan, a cost of living adjustment is not available on the service retirement benefit. For disability and survivor benefits, the basic benefit is increased each year by 2% of the original base benefit.

Contributions

Ohio Revised Code Chapters 145 and 3307 set the rates for employer and employee contributions for OPERS and STRS, respectively. Contribution rates can only be modified by the state legislature.

OPERS Contributions

Under OPERS, the employee contribution rate for the years ended June 30, 2015 and 2014 was 10% for all employees with the exception of law enforcement. The law enforcement contribution rate was 12.6% through December 31, 2013 and increased to 13% effective January 1, 2014. The employer contribution rate is 14% for all employees with the exception of law enforcement whose rate is 18.1%.

For Member-Directed Plans, for the years ended June 30, 2015, 2014, and 2013, 13.23% was paid into the member's member-directed account and the remaining 0.77% was paid to OPERS to cover unfunded liabilities, as required by state legislation. Effective January 1, 2016, these rates will change to 13% and 1%, respectively. The university's contributions to OPERS were \$9,045,674, \$8,712,371, \$8,534,584, and \$8,472,527 for the fiscal years ended June 30, 2015, 2014, 2013, and 2012 respectively. The university's contributions were equal to the required contributions for each year as set by state statute.

STRS Contributions

Under STRS plans, the employee contribution rate was 12% and 11%, for years ended June 30, 2015 and 2014, respectively. Under the Combined Plan, 1% of the employee contribution is to fund the defined benefit. The member contribution rate increased to 13% of salary effective July 1, 2015 and is scheduled to increase to 14% of salary effective July 1, 2016. The employer contribution rate is 14%. Under the Defined Contribution Plan, 4.5% of the employer contribution is used to amortize the unfunded actuarial accrued liability of the defined benefit plan. Effective July 1, 2015, this mitigating rate changed to 5% of the employer contribution. The university's contributions to STRS for the years ended June 30, 2015, 2014, 2013, and 2012, respectively, were \$10,756,852, \$10,202,409, \$10,064,517, and \$10,003,641. The university's contributions were equal to the required contributions as set by state statute.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of \$228,135,876 for its proportionate share of the OPERS and STRS net pension liabilities which were measured as of December 31, 2014 and June 30, 2014, respectively. The total pension liabilities used to calculate the net pension liabilities

Wright State University

Notes to Financial Statements
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were determined by actuarial valuations as of those respective dates. The university's proportion of the net pension liabilities for STRS as well as the OPERS Combined Plan were based on the university's share of contributions to each plan relative to the total employer contributions received from all participating employers of each plan. The university's proportion of the net pension liability for the OPERS Traditional Plan was based on the combined university employer and member contributions relative to the total combined employer and member contributions received from all participating employers and members of the plan.

Information for each plan's proportionate share and pension expense for the year ended June 30, 2015 is as follows:

	OPERS	STRS	Total
Measurement date	December 31, 2014	June 30, 2014	
Proportionate share of the			
Net pension liability	\$ 54,649,018	\$ 173,486,858	\$ 228,135,876
Proportion of the			
Net pension liability	0.45455184%	0.71324907%	
Pension expense	\$ (969,438)	\$ (2,741,918)	\$ (3,711,356)

At June 30, 2015, the University reports deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	STRS	Total
Deferred outflows of resources:			
Differences between expected and actual experience	\$	\$ 1,670,188	\$ 1,670,188
Net difference between projected and actual earnings on pension plan investments	2,938,669		2,938,669
University contributions subsequent to the measurement date	3,543,152	10,756,852	14,300,004
Total	<u>\$ 6,481,821</u>	<u>\$ 12,427,040</u>	<u>\$ 18,908,861</u>
Deferred inflows of resources:			
Differences between expected and actual experience	\$ 1,024,290	\$	\$ 1,024,290
Net difference between projected and actual earnings on pension plan investments		32,095,726	32,095,726
Total	<u>\$ 1,024,290</u>	<u>\$ 32,095,726</u>	<u>\$ 33,120,016</u>

Wright State University

Notes to Financial Statements
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As of June 30, 2015, the University reported \$3,543,152 and \$10,756,852 as deferred outflows of resources related to pensions resulting from university contributions subsequent to the measurement date to OPERS and STRS, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ 282,850	\$ (7,606,385)	\$ (7,323,535)
2017	282,850	(7,606,385)	(7,323,535)
2018	653,064	(7,606,385)	(6,953,321)
2019	727,446	(7,606,383)	(6,878,937)
2020	(7,222)		(7,222)
Thereafter	<u>(24,609)</u>	<u></u>	<u>(24,609)</u>
Total	\$ <u>1,914,379</u>	\$ <u>(30,425,538)</u>	\$ <u>(28,511,159)</u>

Actuarial Assumptions

OPERS

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.75%
Salary increases	4.25% – 10.05%, including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Projection Scale AA.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2006 - December 31, 2010. As a result of the 2010 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 2014 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The OPERS Board of Trustees sets target allocations as well as minimum and maximum allowable allocations, or ranges, surrounding each asset class target. The purpose of these ranges is to appropriately and cost-effectively balance the Board's investment policy with the investment strategies pursued over shorter time periods. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Wright State University

Notes to Financial Statements
(Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	23.00%	2.31%
Domestic equity	19.90%	5.84%
International equity	19.10%	7.40%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
Other investments	18.00%	4.59%
Total	100.00%	

STRS

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	2.75% – 12.25%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Projection Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study effective July 1, 2012. As a result of the 2012 actuarial experience study, the expectation of life after disability was adjusted in the July 1, 2014 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments was determined by STRS's investment consultant by developing best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class. The STRS Board of Trustees sets target allocations as well as minimum and maximum allowable allocations, or ranges, surrounding each asset class target. The purpose of these ranges is to appropriately and cost-effectively balance the Board's investment policy with the investment strategies pursued over shorter time periods. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Wright State University

Notes to Financial Statements
(Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	18.00%	3.75%
Domestic equity	31.00%	8.00%
International equity	26.00%	7.85%
Real estate	10.00%	6.75%
Alternatives	14.00%	8.00%
Liquidity reserves	1.00%	3.00%
Total	100.00%	

Discount Rates

The discount rates used to measure the total pension liabilities were 8% for OPERS and 7.75% for STRS. The projection of cash flows used to determine the discount rates assumed employee contributions will be made at the current contribution rate and contributions from the University will be made at statutorily required rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return for each plan (8% and 7.75%). Based on those assumptions, the pension plans' fiduciary net positions were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the respective long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities.

Sensitivity of The University's Proportionate Share of The Net Pension Liability to Changes in The Discount Rate:

Net pension liability is sensitive to changes in the discount rate. To illustrate the potential impact, the university's proportionate share of the net pension liabilities calculated using the discount rates of 8% for OPERS and 7.75% for STRS is compared to what the university's proportionate share of the net pension liabilities would be if calculated using a discount rate 1 percentage point lower (7% for OPERS and 6.75% for STRS) or 1 percentage point higher (9% for OPERS and 8.75% for STRS) than the current rate.

Wright State University

Notes to Financial Statements (Continued)

The following table provides the results of the sensitivity analysis:

	1% Decrease	Current	1% Increase
	(7.00%)	Discount Rate (8.00%)	(9.00%)
OPERS Range			
STRS Range			
University's proportionate share:			
OPERS net pension liability	\$ 100,930,447	\$ 54,649,018	\$ 15,679,972
STRS net pension liability	248,365,352	173,486,858	110,164,849
Total	\$ 349,295,799	\$ 228,135,876	\$ 125,844,821

Pension Plan Fiduciary Net Position

Detailed information about OPERS and STRS fiduciary net position is available in the separately issued financial reports. Financial reports for OPERS may be obtained online at www.opers.org or by writing to Ohio Public Employees Retirement System, Director-Finance, 277 East Town Street, Columbus, Ohio 43215-4642. Financial reports for STRS may be obtained at strsoh.org or by writing to State Teachers Retirement System of Ohio, Attn: Chief Financial Officer, 275 E. Broad St., Columbus, OH 43215-3771

Alternative Retirement Plan (ARP) Contributions

Certain full-time university staff and faculty have the option to choose the ARP in place of OPERS or STRS. 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% of employees' covered compensation for employees who would otherwise participate in OPERS and 12% for those who would otherwise participate in STRS for the year ended June 30, 2015. The university's contributions to a participating faculty member's account and to STRS are 9.5% and 4.5% of a participant's compensation, respectively. The university's contributions to a participating staff member's account and to OPERS are 13.23% and 0.77% of a participant's compensation, respectively. Plan participants' contributions were \$6,862,582, \$5,865,779, and \$5,353,406, and the university's contributions to the plan providers amounted to \$6,905,431, \$6,117,266, and \$6,384,440 for the years ended June 30, 2015, 2014, and 2013, respectively. In addition, the amounts contributed to STRS by the University on behalf of ARP participants were \$1,693,514, \$1,573,660, and \$1,250,936, respectively, for the years ended June 30, 2015, 2014, and 2013. The amounts contributed to OPERS by the University on behalf of ARP participants were \$184,076, \$163,962, and \$152,637 for the years ended June 30, 2015, 2014, and 2013, 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 and OPERS.

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

Wright State University

Notes to Financial Statements (Continued)

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 2%, 1.5%, and 2.5% for the years ended June 30, 2015, 2014, and 2013, respectively. The portion of the university's 2015, 2014, and 2013 contributions to OPERS used to fund postretirement benefits was \$1,265,942, \$915,901, and \$1,496,776. 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.

State Teachers Retirement System of Ohio

STRS 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. 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, no covered payroll was allocated to postemployment health care for 2015, compared to 1% of covered payroll for 2014 and 2013. The portion of the university's 2015, 2014, and 2013 contributions to STRS used to fund postemployment benefits was \$0, \$626,502, and \$629,542 for the years ended June 30, 2015, 2014, and 2013, respectively.

(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 Department of Higher Education (formerly known as 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 Department of Higher Education. Costs incurred during construction are included in construction in progress and recognized as capital appropriations. Upon completion of a facility, the Ohio Department of Higher Education 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, 2015, the University is committed under contractual obligations for:

Capital expenditures	\$ 5,293,754
Non-capital goods and services	<u>13,257,064</u>
Total contractual commitments	<u>\$ 18,550,818</u>

These commitments are being funded from the following sources:

State appropriations requested and approved	\$ 2,544,171
University funds	<u>16,006,647</u>
Total sources	<u>\$ 18,550,818</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.

Wright State University is the subject of an ongoing federal investigation. The expected time of completion and the potential impacts of the investigation are unknown at this time.

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:

	2015	2014	2013
Liability at beginning of fiscal year	\$ 1,670,000	\$ 1,600,000	\$ 1,800,000
Current year claims including changes in estimates	29,354,091	28,571,273	27,392,159
Claim payments	(29,224,091)	(28,501,273)	(27,592,159)
Liability at end of fiscal year	<u>\$ 1,800,000</u>	<u>\$ 1,670,000</u>	<u>\$ 1,600,000</u>

Notes to Financial Statements
(Continued)

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 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, excepting cash equivalent holdings in its investment portfolios that have resulted from recent security sales that will be used to purchase other long-term securities.

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

Wright State University

Notes to Financial Statements (Continued)

recorded at their acquisition cost if they were purchased and at fair value if they are received through a contribution or exchange transaction. Securities traded on a national exchange are valued at their last reported sales price on the exchange on which they are traded.

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

	Years
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.

Notes to Financial Statements
(Continued)

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

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

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

Notes to Financial Statements
(Continued)

than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2015 or 2014, respectively.

The Foundation is no longer subject to examination by taxing authorities for years before 2012. The Foundation does not have any tax benefits recorded at June 30, 2015, 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, 2015 or 2014.

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.

Notes to Financial Statements
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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.

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The guidance is effective for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented and may be implemented earlier. Consequently, the Foundation has added an "other" column to the fair value table presented below and reclassified its hedge fund, private equity and distressed debt investments to that classification since these investments utilize the NAV practical expedient. Such an adjustment was also made to the previous fiscal year's presentation to ensure comparability.

Wright State University

Notes to Financial Statements
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Assets measured at fair value on a recurring basis are summarized below for the years ended June 30, 2015 and 2014:

Fair Value Measurements at June 30, 2015 Using					
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Other	Totals
<u>Assets</u>					
Gifts receivable from trusts held by others	\$	\$	\$ 1,394,640	\$	\$ 1,394,640
Investment in securities:					
Cash and equivalents	7,600,000				7,600,000
Mutual funds:					
Equity	51,596,598				51,596,598
Fixed Income	41,549,216				41,549,216
Alternative assets:					
Hedge funds				11,938,497	11,938,497
Private equity				2,449,314	2,449,314
Distressed debt				2,919,589	2,919,589
Total investment in securities	100,745,814			17,307,400	118,053,214
Other investments:					
Limited partnerships			900,614		900,614
Annuity assets:					
Cash and equivalents		7,164			7,164
Mutual funds-securities	42,182	656,702			698,884
Total annuity assets	42,182	663,866			706,048
Total	\$ 100,787,996	\$ 663,866	\$ 2,295,254	\$ 17,307,400	\$ 121,054,516

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Notes to Financial Statements
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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)	Other	Totals
<u>Assets</u>					
Gifts receivable from trusts held by others	\$	\$	\$ 1,326,100	\$	\$ 1,326,100
Investment in securities:					
Cash and equivalents					
Mutual funds:					
Equity	55,351,028				55,351,028
Fixed income	46,272,699				46,272,699
Alternative assets:					
Hedge funds				11,596,860	11,596,860
Private equity				2,210,760	2,210,760
Distressed debt				2,748,692	2,748,692
Total investment in securities	101,623,727			16,556,312	118,180,039
Other investments:					
Limited partnerships			1,155,707		1,155,707
Annuity assets:					
Cash and equivalents		209,209			209,209
Mutual funds-securities	25,211	580,703			605,914
Total annuity assets	25,211	789,912			815,123
 Total	 \$ 101,648,938	 \$ 789,912	 \$ 2,481,807	 \$ 16,556,312	 \$ 121,476,969

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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, 2015 and 2014:

		2015
		Gifts Receivable from Trusts Held by Others
Beginning balance, July 1	\$	1,326,100
Interest and dividends		
Realized gains on sales		
Unrealized gains included in earnings		
Purchases		74,440
Sales		
Change in value of split interest agreements		(5,900)
Net transfers in/(out) of Level 3		
Ending balance, June 30	\$	<u>1,394,640</u>
		2014
		Gifts Receivable from Trusts Held by Others
Beginning balance, July 1	\$	1,277,300
Interest and dividends		
Realized gains on sales		
Unrealized gains included in earnings		
Purchases		
Sales		
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>

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 11B. The fair value of mutual funds is based on quoted prices in active markets (Level 1 inputs).

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

Notes to Financial Statements
(Continued)

For hedge funds 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 security valuations.

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, 2015, the Foundation has no significant unfunded commitments to this hedge fund allocation. The valuation of this investment is based on net asset value ("NAV").

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 no longer subject to the fund's initial two-year lock-up period and may, therefore, request liquidation on a semi-annual basis with 95 days prior notification. At June 30, 2015, the Foundation has no significant unfunded commitments to this hedge fund allocation. The valuation of this investment is based on NAV.

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, 2015, the Foundation's total capital commitment of \$3,500,000 was 71.4% (\$2,498,908) funded. Due to the long-term commitment of capital and the unpredictability of capital calls and partnership distributions, the fund is generally considered illiquid. It is also not unusual for private equity funds to experience losses in the early years of their existence. The valuation of this investment is based on NAV.

A new private equity investment was initiated in FY15. This fund investment is also structured as a domestic partnership in which the Foundation is a limited partner. The fund seeks to continue the investment policy of the first fund, but seeks more diversification, shorter duration and a focus on cash returns. Diversification is accomplished by investing over five sub-class targets: buyouts, venture capital, debt, real estate and real assets/infrastructure. Capital commitments of the limited partners are payable to the partnership in installments over a 3 – 5 year period. At June 30, 2015, the Foundation's total capital commitment of \$6,400,000 was 1.5% (\$93,186) 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.

Notes to Financial Statements
(Continued)

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, 2015. The Foundation is no longer subject to the investment's two year lockup period and may, therefore, request liquidation on a quarterly basis with 69 days prior notice.

Valuation of limited partnership shares reported as "other investments" are derived from reports issued by the general partners adjusted for capital contributions and withdrawals throughout the 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, 2015 and 2014, by fund type, are as follows:

2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Less than one year	\$ 20,100	\$ 2,873,907	\$ 573,535	\$ 3,467,542
One to five years		6,335,181	574,539	6,909,720
Six years or greater		2,211,000		2,211,000
Gross pledges receivable	20,100	11,420,088	1,148,074	12,588,262
Present value discount		(1,156,588)	(15,474)	(1,172,062)
Allowance for uncollectible pledges		(78,600)	(8,000)	(86,600)
Pledges receivable (net)	\$ 20,100	\$ 10,184,900	\$ 1,124,600	\$ 11,329,600

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

Wright State University

Notes to Financial Statements
(Continued)

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%.

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. Rates ranged from 1.72% to 4.92%. The balances at June 30, 2015 and 2014, are \$1,394,640 and \$1,326,100, respectively, and are included in Temporarily Restricted net assets.

F. Capital Assets

Capital assets activity for the year ended June 30, 2015 and 2014 is summarized as:

	2015				
	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Capital assets:					
Land	\$ 173,000	\$	\$	\$	\$ 173,000
Buildings and improvements	2,550,064				2,550,064
Machinery and equipment	28,632				28,632
Construction in progress		46,563			46,563
Total capital assets	2,751,696	46,563			2,798,259
Less accumulated depreciation:					
Buildings and improvements	71,106	112,796			183,902
Machinery and equipment	6,135	4,091			10,226
Total accumulated depreciation	77,241	116,887			194,128
Capital assets, net	<u>\$ 2,674,455</u>	<u>\$ (70,324)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,604,131</u>
	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	<u>\$ 1,482,267</u>	<u>\$ 1,192,188</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,674,455</u>

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, 2015, 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, 2015 and 2014, 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.

REQUIRED SUPPLEMENTARY INFORMATION

Wright State University
Required Supplementary Information
Year Ended June 30, 2015

**SCHEDULE OF THE WRIGHT STATE UNIVERSITY PROPORTIONATE SHARE
OPERS NET PENSION LIABILITY AND CONTRIBUTIONS**
(Dollar amounts in thousands)
(Percentages rounded to thousandths)

	<u>2015 ⁽¹⁾</u>
University's proportion of the net pension liability (asset) ⁽²⁾	0.455%
University's proportionate share of the net pension liability ⁽²⁾	\$ 54,649
OPERS fiduciary net position as a percentage of the total pension liability ⁽²⁾	86.533%
University's covered-employee payroll ⁽²⁾	\$ 61,994
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll ⁽²⁾	88.152%
Statutorily required contribution ⁽³⁾	\$ 9,046
Contributions in relation to the statutorily required contribution ⁽³⁾	\$ <u>9,046</u>
Annual contribution deficiency (excess) ⁽³⁾	\$ <u><u> </u></u>
University's covered-employee payroll ⁽³⁾	\$ 62,945
Contributions as a percentage of covered-employee payroll ⁽³⁾	14.371%

(1) Information prior to 2015 is not available

(2) Amount presented determined as of the December 31, 2014 OPERS fiscal year-end

(3) Amount presented determined as of the June 30, 2015 university fiscal year-end

Wright State University
Required Supplementary Information
Year Ended June 30, 2015

**SCHEDULE OF THE WRIGHT STATE UNIVERSITY PROPORTIONATE SHARE
STRS NET PENSION LIABILITY AND CONTRIBUTIONS**
(Dollar amounts in thousands)
(Percentages rounded to thousandths)

	<u>2015 ⁽¹⁾</u>
University's proportion of the net pension liability (asset) ⁽²⁾	0.713%
University's proportionate share of the net pension liability ⁽²⁾	\$ 173,487
STRS fiduciary net position as a percentage of the total pension liability ⁽²⁾	74.707%
University's covered-employee payroll ⁽²⁾	\$ 61,581
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll ⁽²⁾	281.722%
Statutorily required contribution ⁽³⁾	\$ 10,757
Contributions in relation to the statutorily required contribution ⁽³⁾	\$ <u>10,757</u>
Annual contribution deficiency (excess) ⁽³⁾	\$ <u><u> </u></u>
University's covered-employee payroll ⁽³⁾	\$ 64,347
Contributions as a percentage of covered-employee payroll ⁽³⁾	16.717%

(1) Information prior to 2015 is not available.

(2) Amount presented determined as of the June 30, 2014 STRS fiscal year-end.

(3) Amount presented determined as of the June 30, 2015 university fiscal year-end

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Wright State University
Dayton, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Wright State University (the "University") and its discretely presented component unit as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated the same date as of this report.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2015