

**FBPC has created this report as an informational document to summarize the financial relationship between WSU and WSARC.**

**2/20/2019**

### **Summary**

Provost Hopkins authorized financial support for the initial set up of Wright State Research Institute (WSRI) is estimated at \$2,450,000.

Based on Financial Statements (highlighted info from WSARC)

	<b>Total</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
WSU acted as passthrough. No money owed to WSU.	<b>\$2,268,695</b>	1,194,444 <sup>1</sup>	150,000 <sup>2</sup>	924,251 <sup>3</sup>		
WSU acted as passthrough for RDCAP.  Recovered to date 3,450,022 Will Recover Remaining 1,549,978 <sup>4</sup>	<b>\$4,036,173</b>			1,800,000 <sup>5</sup>	2,186,173 <sup>6</sup>	50,000 <sup>7</sup>
Forgiveness of amounts due to WSU	<b>5,395,817</b>	4,384,460 <sup>8</sup>				1,011,357 <sup>9</sup>

WSARC owes WSU 530,000 for the shared services wages that WSU paid for the ATIC support staff. This balance is being repaid at the rate of 50,000 per quarter.

Ongoing finances and SOP to limit WSU's liability moving forward:

1. Self-supporting, with monthly financial reports vetted by BDK, WSARC Board of Directors, and WSU Annual Affiliated Entity Review.
2. Effective July 1, 2018, paying WSU for shared services, including interest for floating WSRI salaries (on average, for 60 days).

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<sup>1</sup> WSARC received contributions of equipment in the amount of \$1,194,444. These contributions were received from capital appropriations from the State of Ohio through Wright State University.

<sup>2</sup> State Capital budget

<sup>3</sup> The University purchased \$924,251 of capital assets for WSARC during the year ended June 30, 2014. State Capital budget

<sup>4</sup> Source: WSARC

<sup>5</sup> WSU forgave \$1,800,000 of amount due from WSARC for the purchase of the building.

<sup>6</sup> RDCAP - WSU purchased \$2,186,173 of capital assets for WSARC to use to fulfill the requirements of the grant in the year ended June 30, 2013.

<sup>7</sup> During fiscal year ending June 2012, Wright State University paid a deposit of \$50,000 on behalf of WSARC toward the purchase of an office building.

<sup>8</sup> WSU forgave \$4,384,460 of their due from WSARC to cover short falls in operational costs incurred by WSARC. The shortfalls in operations were a result of indirect cost rates not fully covering operational costs.

<sup>9</sup> Per an agreement reached with the University during the year ended June 30, 2012, the amount outstanding of \$1,011,357 was forgiven by the University.

3. Firewall between WSARC and WSU RSP – all subcontracts between WSARC and WSU RSP will be formalized through the appropriate sponsored research group (WSARC or RSP), ensuring indirect returns to both groups (as done currently with subcontracts between WSU and other universities).

Benefits of WSARC:

1. National/international reputation as a research university - WSARC enhances WSU's standing in at least two major areas:
  - a. Research expenditures – WSARC comprises 30-35% of our total research expenditures/year (per HERD report). WSU alone (without WSARC) = \$41.2M; WSU + WSARC ~\$59.4M.
  - b. Ph.D. level non-faculty scientists – WSU along (without WSARC) ~10; WSU + WSARC ~30.
2. Ability to receive contracts not possible on campus due to security requirements.
3. Can charge true overhead expenses to contracts; i.e., not limited to MTDC rate.
4. Total Time accounting as opposed to the level of effort time accounting. This is required for larger DoD contract to be FAR compliant. WSRI has a \$62M contract with AFRL, DARPA and IARPA contracts and classified contracts that require this level of time account.
5. Subcontracts to WSU from WSARC contracts – currently relatively small at < \$1M/year in F&A generated for WSU, but growing.
6. IRAD – First year, Jan, 2019, only \$100K directly to WSU faculty – hopefully grow each year – dependent on WSARC G&A generated.

Wright State led a team of universities and corporations to create daytaOhio in 2003 as a Wright Center of Innovation under Ohio's Third Frontier program.<sup>10</sup>

On October 9, 2006 then Provost Hopkins authorized financial support for the initial set up of Wright State Research Institute (WSRI).<sup>11</sup>

FY 2006-2007	\$250,000
FY 2007-2008	\$300,000
FY 2008-2009	\$300,000
FY 2009-2010	\$300,000
FY 2010-2011	\$300,000
FY 2011-2012	\$200,000 per year with no end date.

WSRI has not received any direct budget from WSU since July 1, 2016.<sup>12</sup>

Assuming the budgeted amounts were the actual spend, this is a total of \$2,450,000.

In July 2004, the articles of incorporation for Wright Center of Innovation for Advanced Data Management and Analysis, Inc. (WCI) were filed with The Ohio Secretary of State by Charles T. Walsh.<sup>13</sup>

In March 2011, Wright Center of Innovation for Advanced Data Management and Analysis, Inc. was renamed Wright State Applied Research Corporation (WSARC). The request for the change in the name of the corporation was filed by Terence Rapoch (President, WCI) with The Ohio Secretary of State.<sup>14</sup>

With Ryan Fendley as director, WSRI integrated daytaOhio in September 2011.<sup>15</sup>

After the restructuring, Narayanan, Dean of the College of Engineering and Computer Science continued to serve as WSRI's executive director. Ryan Fendley, continued to serve as director of WSRI and become CEO of WSARC. Terence Rapoch, who was daytaOhio's president, became WSARC's president and WSRI's chief technologist.

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<sup>10</sup> <https://webapp2.wright.edu/web1/newsroom/2011/09/30/wright-state-research-institute-integrates-daytaohio/>

<sup>11</sup> Memo dated 10.9.2006 from Provost Hopkins to Professor and Chair Narayanan

<sup>12</sup> WSARC self-study February 2017

<sup>13</sup> State of Ohio Certificate Document No: 200421000468

<sup>14</sup> State of Ohio Certificate Document No: 201108900994

<sup>15</sup> <https://webapp2.wright.edu/web1/newsroom/2011/09/30/wright-state-research-institute-integrates-daytaohio/>

Per an agreement reached with the University during the year ended June 30, 2012, **the amount outstanding of \$1,011,357 was forgiven by the University.** This is reflected as a contribution to equity in the statement of activities for the year ended June 30, 2102.<sup>16</sup>

#### **WSU Investment in WSARC**

During fiscal year ending June 2012, Wright State University paid a deposit of \$50,000 on behalf of WSARC toward the purchase of an office building. On September 2, 2011, WSARC signed an agreement to purchase 4035 Colonel Glenn Hwy, Beavercreek OH 45435 (34,000 rentable square feet building and 4.4 acres of land) for \$1,800,000. The purchase was completed on July 13, 2102.<sup>17</sup> **During the fiscal year ending June 30, 2104, WSU forgave \$1,800,000 of the amount due from WSARC for the purchase of the building.** WSARC began recognizing revenue for space leased to the University in WSARC's building.<sup>18</sup>

This was not forgiven but paid back by the state through the \$5 million RDCAP grant. WSU loaned the money to WSARC to purchase the building and the funds were ultimately paid back to the University by the RDCAP grant. They did transfer the ownership of the building to WSARC on June 30, 2104 at this point since the loan was paid back.<sup>19</sup>

Major investment in property plant and equipment happened during fiscal year 2013. The change in Gross fixed assets was \$4,475,828 and individual investments are detailed below.

Land	735,480
Software for projects	122,481
Computers and hardware	912,748
Buildings and building improvements	1,437,936
Furniture and fixtures	185,258
Truck trailer	520,904
Equipment	561,021
<b>Total Capital Expenditures</b>	<b>4,475,828</b>

During the year ended June 30, 2013, the state of Ohio awarded the University a grant<sup>20</sup>, a part of which was to be operated by WSARC. The University purchased \$2,186,173 of capital assets for WSARC to use to fulfill the requirements of the grant. This is reflected as a contribution to equity.<sup>21</sup> This was

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<sup>16</sup> Independent Auditor's Report and Financial Statements June 30, 2013 and 2012

<sup>17</sup> Independent Auditor's Report and Financial Statements June 30, 2012.

<sup>18</sup> Independent Auditor's Report and Financial Statements June 30, 2014 and 2013

<sup>19</sup> Information provided by Dennis Andersh

<sup>20</sup> Ohio Third Frontier Research and Development Capitalization Grant (RDCAP) for \$5M to invest in WSU and WSARC infrastructure to support the new 711th Human Performance Wing Research. (Source: Dennis Andersh)

<sup>21</sup> Independent Auditor's Report and Financial Statements June 30, 2013 and 2012

reimbursed to the University through the RDCAP grant.<sup>22</sup> The University purchased \$924,251 of capital assets for WSARC during the year ended June 30, 2014.<sup>23</sup> State capital funds were used.<sup>24</sup>

Assuming the capital assets purchased are using grant money, WSU acted as a pass through entity for this cash flow and should not be considered as the contributing entity.

Dennis Andersh joined in December 2013 as Chief Operating Officer for WSARC.

In May 2014, he became the Chief Executive Officer of WSARC. In September 2015 Mr. Andersh was also named Executive Director of WSRI.<sup>25</sup>

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<sup>22</sup> Information provided by Dennis Andersh

<sup>23</sup> Independent Auditor's Report and Financial Statements June 30, 2014 and 2013

<sup>24</sup> Information provided by Dennis Andersh

<sup>25</sup> WSARC self-study February 2017, page 17

### **Miami Valley Research Foundation**

The Corporation issued a note receivable to a research foundation on June 30, 2014 for \$300,000. The note bears interest at the five-year treasury rate plus 250 basis points, with the interest rate reset on January 1 of each year. Quarterly payments of accrued interest are to be made beginning July 1, 2014, with the principal due at maturity on December 31, 2024. The note is collateralized by all assets of the borrower. The note receivable is included in other asset in the statement of financial position.<sup>26</sup>

It was reported in the FY ending 2016 annual report that on June 30, 2016, the note receivable was converted into an option to purchase land.<sup>27</sup>

On June 26, 2015, WSARC converted a \$300,000 note receivable from the Miami Valley Research Foundation into an option to purchase a proportionate share of approximately 125 acres of land located in Greene County, Ohio. The option expires on June 9, 2019. If the option is not exercised, the \$300,000 consideration paid will be returned to WSARC.<sup>28</sup>

It was reported in the FY ending 2018 annual report that “On June 26, 2015, WSARC converted a \$300,000 note receivable from the Miami Valley Research Foundation into an option to purchase a proportionate share of approximately 125 acres of land located in Greene County, Ohio. The option expires on June 9, 2019. If the option is not exercised, the \$300,000 consideration paid will be returned to WSARC.”

### **Auditor’s finding: Transactions with Miami Valley Research Foundation**

Management was not aware of, nor could they produce, executed contracts or agreements with Miami Valley Research Foundation with respect to the conversion of a note receivable into an option to purchase land.<sup>29</sup>

Response from Mr. Andersh

“This was because the President and CFO at WSU made these agreements without the WSARC’s knowledge. The same thing happened to the Foundation. They have the same comment in their report. They also provided \$300K for a total investment of \$900K by the University and its affiliates.”

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<sup>26</sup> Independent Auditor’s Report and Financial Statements June 30, 2014 and 2013

<sup>27</sup> Independent Auditor’s Report and Financial Statements June 30, 2016 and 2015

<sup>28</sup> Independent Auditor’s Report and Financial Statements June 30, 2017 and 2016 (Page 9 note 4: other assets)

<sup>29</sup> Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report and Financial Statements June 30, 2017 and 2016

## **Financial Guaranty**

During fiscal year 2014, a donor made a bequest to the University of an office building in the donor's name. The donor has a mortgage on the building of approximately \$2,700,000. During fiscal year 2014, WSARC entered into an agreement with the lender guarantying the debt service payments of the mortgage. As of June 30, 2014, no amounts were recognized as a liability under the financial guaranty in WSARC's statement of financial position.<sup>30</sup>

As of June 30, 2018, 2017 and 2016, no amounts were recognized as a liability under the financial guaranty in WSARC's statements of financial position.

## **Auditor's finding: Evaluation of Guarantees**

Management does not have an established process or control in place to evaluate the potential need to establish and record a liability with respect to a guaranty that WSARC has issued.<sup>31</sup>

On June 7, 2018, WSARC obtained a release of this guaranty for WSARC and WSU.<sup>32</sup>

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<sup>30</sup> Independent Auditor's Report and Financial Statements June 30, 2014 and 2013

<sup>31</sup> Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor's Report and Financial Statements June 30, 2017 and 2016

<sup>32</sup> Independent Auditor's Report and Financial Statements June 30, 2018 and 2017 (Note 6: Page 10)

During the year ended June 30, 2016, Wright State University forgave \$4,384,460 of their due from WSARC. This amount represents costs incurred by the University to cover short falls in operational costs incurred by WSARC. The shortfalls in operations were a result of indirect cost rates not fully covering operational costs.<sup>33</sup>

### **Why will this not happen again?**

Response from Mr. Andersh

"The WSARC board prior to September 2105 was made up mostly of WSU employees. The WSARC board today is made up of mostly external board members from the business community across the US. We added a PricewaterhouseCoopers auditor to the board and also a former bank executive. The BKD audit firm that audits WSU and WSARC is more thorough than previous auditors. We also have monthly WSARC reports we deliver to WSU as a part of the affiliation agreement, and we provide an annual reports and presentations to the WSU board of trustees.

In addition, we have the new WSRI executive advisory committee and the research advisory council to increase transparency of what is ongoing at WSRI and WSARC.

The WSARC board and Vice Chair are both business executives that have significant experience in their fiduciary responsibilities as a board.

Strong WSARC Board of Directors and much improved BKD external auditors. I am also having an outside audit firm come in to do a DCAA audit to ensure we have no further issues today and processes prevent them in the future."

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<sup>33</sup> Independent Auditor's Report and Financial Statements June 30, 2016 and 2015 (page 9 Note 5)

During the year ended June 30, 2016, WSARC received contributions of equipment in the amount of \$1,194,444. These contributions were received from capital appropriations from the State of Ohio through Wright State University.<sup>34</sup>

Assuming the capital assets purchased are using the grant money, WSU acted as a pass through entity for this cash flow and should not be considered as the contributing entity.

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<sup>34</sup> Independent Auditor's Report and Financial Statements June 30, 2017 and 2016 (page 10 Note 5)

### **Advanced Technical Intelligence Center for Human Capital Development (ATIC)**

WSARC signed a promissory note with Advanced Technical Intelligence Center (ATIC) on December 1, 2016, for \$1,404,119. The note was to be secured by a fourth mortgage interest in real property owned by ATIC (property) located in Greene County, Ohio. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of \$2,500 are due until the earlier of December 31, 2021, or the date ATIC sells the property, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full.<sup>35</sup>

Principal payments totaling \$101,119 collected through June 30, 2017 reducing balance to 1,303,000. Principal payments totaling \$30,000 collected during fiscal year 2018 reducing balance on June 30, 2018 to \$1,273,000 at which time it was determined to be uncollectable and a bad debt expense was recognized on the income statement.<sup>36</sup>

WSARC owed WSU the \$1,404,119 for the shared services wages that WSU paid for the ATIC support staff. The WSARC had paid WSU \$178,345 of this bill as of December 2016. However, WSARC still owed WSU \$1,225,774. WSARC agreed to pay back WSU this full amount over time and as a result the WSARC Original Loan Balance, payable to WSU for ATIC related expenses, as of June 30, 2016 was \$1,225,774. The Loan Payment Terms agreed to with WSU, were that WSARC would pay WSU \$200K per year until this loan was payed off. WSARC paid WSU \$397K in FY17, \$200K FY18, and have paid \$100K as of December 31, 2018 for FY19. WSARC will continue to pay \$50K per quarter going forward until this is paid off. **As of today the WSARC currently owes WSU \$530K as a result of this loan.** WSARC will use the Miami Valley Research Foundation (MVRF) funds (\$300K) to offset this due bill as soon as those funds are paid back to WSARC. WSARC will then use whatever other fund source comes in first to accelerate payment of this debt as much as possible.<sup>37</sup>

The ATIC building was sold in September 2018 and as a result of the sale there were not enough proceeds from the building sale to pay off the promissory note to WSARC. Since the FY18 audit was near completion, it was determined by the WSARC board of Directors this note was not fully collectable and allowance was taken before the FY18 books were closed. WSARC is negotiating with the ATIC corporation to recover as much of the open note receivable as is possible. This is work in progress and any of these funds recovered will be used to pay off the loan for the ATIC shared services that WSARC owes WSU.<sup>38</sup>

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<sup>35</sup> Independent Auditor's Report and Financial Statements June 30, 2017 and 2016 (Note 7 page 11)

<sup>36</sup> Independent Auditor's Report and Financial Statements June 30, 2018 and 2017 (page 10 Note Receivable)

<sup>37</sup> Information provided by Dennis Andersh

<sup>38</sup> Information provided by Dennis Andersh

**What is the annual expected payment by WSARC to WSU for shared services?**

WSARC did not pay for WSU services since 2012 to fiscal year end 2018. A Shared Services Management Agreement was entered into between WSU and WSARC effective July 1, 2018. A net payment of \$200,000 per year will be made from WSARC to WSU.<sup>39</sup>

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<sup>39</sup> Shared Services Management Agreement