

“Cracking the Nut,” Part 5

As closely as we can calculate from the audited financial statements, the Wright State Applied Research Corporation (WSARC) cost the university almost \$9 million between 2012 and 2015:

2012:	\$1,011,357	
2013:	\$2,173,314	\$3,184,671
2014:	\$2,724,251	\$5,908,922
	\$1,607,132	\$7,516,054
2015:	\$963,240	\$8,479,294

Notes on how we arrived at these totals are provided at the bottom of this communication.

Last spring, we received from another source the following chart, providing a somewhat different calculation of the cost of WSARC to Wright State.

	2012	2013	2014	2015
State subsidy	\$0	\$4,000,000	\$4,000,000	\$0.00
Deferred revenue – cash received but not yet earned	\$4,093,912	\$6,126,320	\$5,448,820	\$2,640,430.00
Total Revenue	\$1,837,023	\$7,030,581	\$11,627,052	\$15,243,528.00
Total Expenses	\$2,463,841	\$9,024,563	\$10,625,120	\$15,968,382.00
Net Gain/Loss	-\$626,818	-\$1,993,982	\$1,001,932	-\$724,854.00
WSU Forgave		\$1,011,357	\$1,800,000	\$0.00
WSU Subsidy	\$50,000	\$2,186,173	\$924,251	\$150,000.00
Accrued debt to WSU	\$1,064,822	\$5,206,447	\$1,972,252	\$5,407,865.00

At this point, it does not matter all that much what the precise losses have been. It matters only that as the university was reporting three consecutive years of negative cash flow, it continued to “invest” millions of dollars into this entity, which was providing little to no indication that it would ever actually produce revenues that would allow it to contribute to, rather than to continue to be a drain on, the university’s increasingly over-extended resources.

I am certain that someone in the administration will complain that our accounting or that of the other source that we have shared is not accurate. Well, to this point, the university has not provided AAUP-WSU with any financial records related to WSARC or WSRI that are both complete and transparent. (There will be more on the lack of transparency in another communication distributed over the next couple of weeks.) So, if the administration wanted us to be more accurate in our analysis, then it should have provided us with full and clearly presented data, instead of leaving us to improvise.

Notes:

2012

On September 2, 2011, the Wright State Applied Research Corporation (WSARC) signed an agreement to purchase fee simple interest in an office building located at 4035 Colonel Glenn Highway, Beavercreek, Ohio 45435, for a purchase price of \$1,800,000. The building consists of approximately 34,000 rentable square feet of space and is located on approximately 4.4 acres of land. WSARC completed this purchase agreement and closed on the property on July 13, 2012.

But the audited financial statement shows property and equipment at a value of \$941,986.

There is a "Due to Wright State" liability of \$1,114,822. Per an agreement reached with the University during the year ending June 30, 2012, the amount outstanding of \$1,011,357 was forgiven by the University. This is reflected as a contribution to equity by a related party on the Statement of Activities. So, in effect, the University loaned WSARC \$1,114,822 and then forgave \$1,011,357 of the loan. Without this contribution to equity, WSARC would have had net assets of \$103,525, or have been close to being insolvent.

Total revenue for the year equaled \$1,837,023.

Total expenses for the year equaled \$2,463,841.

The total loss for the year was \$626,818.

An impairment of software and equipment of \$5,851,769 was reported.

2013

As noted above, without WSU's contribution to equity WSARC would have had become insolvent the following year when it had a loss of \$1,993,982.

Total revenue for this year equaled \$7,030,581.

Total expenses for this year equaled \$9,024,563.

The total loss for this year equaled \$1,993,982.

There was more impairment of software and equipment reported but only for \$114,259.

Net Cash Used for Operations

The University made another contribution to equity of 2,186,173. During the year ending June 30, 2013, the state of Ohio awarded the University a grant, 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 by a related party on the Statement of Activities.

In 2012 WSARC reported that it had purchased a building. Actually it was WSU that had purchased the building, as is noted in the 2013 financial statements note 4. Part of the \$5,206,447 due to Wright State was \$1,800,000 used to purchase the building. As we will see later WSU forgave this debt.

Separately WSARC reported owning land worth \$735,480 and building and improvements worth \$1,437,936, for a total of \$2,173,416. This means that WSARC spent \$373,416 making improvement on the building that WSU purchased for it.

2014

A “Due to Wright State” amount of \$1,972,252 was reported.

In 2014 there was also for the first time an asset for WSARC “Due from Wright State University” amounting to \$1,607,132 (which includes \$172,760 for rent). This amounts to a new mechanism for charging WSU more—that is, more WSU money was flowing to WSARC. Effectively this wipes out most of the \$2 million due to WSU.

Total revenue for the year was \$11,627,052.

Total expenses for the year were \$12,554,955.

The total loss for the year was \$927,903.

Net Cash Used for Operations was -\$816,171.

Purchases of property and equipment amounted to \$551,327.

In 2014 WSARC lists land at \$751,085. This is an increase over the \$735,480 they reported in 2013. This number should not increase unless they purchased additional land—that is, it is not due to appreciation in the value of land. All plant and property is reported at historical costs—the purchase price. Buildings and improvements were reported at \$1,973,167 compared to \$1,437,936 in 2013.

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.

During the year ended June 30, 2014, WSARC began recognizing revenue for space leased to the University in WSARC's building. This is a new development. First WSU bought the building for WSARC and then was paying \$172,760 in rent. (The going rate at Wright Executive Center office park is \$17.95 per square foot. So one wonders how many square feet the university is renting and whether it is giving itself a "good deal.")

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 guaranteeing 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.

The University purchased \$924,251 of capital assets for WSARC during the year ended June 30, 2014.

In addition to the capital assets purchased during the year ended June 30, 2014, the University also forgave \$1,800,000 of amount due from WSARC for the purchase of the building. This is reflected as a contribution to equity by a related party on the Statement of Activities for the year ended June 30, 2014.

Thus the University made another contribution to equity of \$2,724,251.

2015

The total amount due to Wright State University was \$7,126,607.

The total amount due from Wright State University was \$1,718,742 (including \$813,000 for rent).

The total revenue for the year was \$15,243,528.

The total expenses for the year were \$15,968,382.

The total loss for the year was \$724,854.

The net cash used for operations was -\$414,948.

The purchases of property and equipment totaled \$344,445.

WSU increased the amount it paid in rent in 2015. It had a "Due to for Rent" in 2015 of \$813,000 compared to \$172,760 in 2014. The increase in the "Due to" reflects the additional rent paid by WSU to WSARC, which was \$640,240.