

Consolidated Financial Statements
and Supplementary Information

NORTHEAST INDIANA INNOVATION CENTER, INC. AND AFFILIATES

*Years ended December 31, 2018 and 2017
with Independent Auditor's Report*

Northeast Indiana Innovation Center, Inc. and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years ended December 31, 2018 and 2017

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HAINES, ISENBARGER & SKIBA, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
Northeast Indiana Innovation Center, Inc.

We have audited the accompanying consolidated financial statements of Northeast Indiana Innovation Center, Inc. and affiliates which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Indiana Innovation Center, Inc. and affiliates as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter—Unaudited Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying consolidated statements of changes in net assets before interest expense, income taxes, depreciation and amortization for the years ended December 31, 2018 and 2017 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Laines, Lumbarger & Skiba, LLC

Fort Wayne, Indiana
February 28, 2019

Northeast Indiana Innovation Center, Inc.

Consolidated Statements of Financial Position

	December 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 1,520,840	\$ 2,046,106
Receivables:		
Trade accounts receivable, less allowances of \$15,000 in 2018 and 2017	16,875	72,771
Notes receivable	92,537	83,917
Pledges receivable	160,380	64,888
	<u>269,792</u>	<u>221,576</u>
Prepaid expenses	44,116	22,993
Investments	255,969	225,969
Property and equipment:		
Building	13,317,007	13,311,132
Leasehold improvements	269,403	245,479
Lab equipment	83,237	83,237
Office equipment	878,479	797,804
Vehicles	59,795	59,795
Construction in progress	-	40,946
	<u>14,607,921</u>	<u>14,538,393</u>
Less accumulated depreciation	5,150,312	4,754,903
	<u>9,457,609</u>	<u>9,783,490</u>
Total assets	<u>\$ 11,548,326</u>	<u>\$ 12,300,134</u>
Liabilities, net assets and noncontrolling interest		
Accounts payable	\$ 39,437	\$ 30,640
Accrued liabilities	57,987	170,048
Income tax payable	2,779	40,010
Deferred revenue	495	9,134
Deposits	54,502	49,560
Capital lease obligation	11,190	21,138
Total liabilities	<u>166,390</u>	<u>320,530</u>
Net assets and noncontrolling interest		
Net assets:		
Without donor restrictions	11,218,371	11,893,488
With donor restrictions	163,565	95,000
Total net assets	<u>11,381,936</u>	<u>11,988,488</u>
Noncontrolling interest	-	(8,884)
Total net assets and noncontrolling interest	<u>11,381,936</u>	<u>11,979,604</u>
Total liabilities, net assets and noncontrolling interest	<u>\$ 11,548,326</u>	<u>\$ 12,300,134</u>

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Consolidated Statements of Activities

	Year ended December 31	
	2018	2017
Changes in net assets without donor restrictions		
Support, revenues and gains:		
Program service fees	\$ 695,664	\$ 759,160
Incremental tax financing funds	375,813	476,061
Grants and contributions	263,882	246,388
Investment income	31,437	22,779
Special events, net	90,237	114,073
Gifts in-kind	13,218	14,288
Other	2,364	1,146
	<u>1,472,615</u>	<u>1,633,895</u>
Net assets released from restrictions	126,335	113,250
Total support, revenues and gains	<u>1,598,950</u>	<u>1,747,145</u>
Expenses and losses:		
Program services	1,735,678	1,864,255
Supporting services:		
Management and general	417,280	391,122
Fundraising	121,109	120,145
Total supporting services	<u>538,389</u>	<u>511,267</u>
Loss on other long-lived asset	-	45,856
Total expenses and losses	<u>2,274,067</u>	<u>2,421,378</u>
Decrease in net assets without donor restrictions before other changes	(675,117)	(674,233)
Other changes in net assets without donor restrictions:		
Dissolution of noncontrolling interest	-	(72,754)
Decrease in net assets without donor restrictions		
before discontinued operations	(675,117)	(746,987)
Discontinued operations	8,884	249,706
Decrease in net assets without donor restrictions	<u>(666,233)</u>	<u>(497,281)</u>
Changes in net assets with donor restrictions		
Contributions	194,900	99,500
Net assets released from restrictions	(126,335)	(113,250)
Increase (decrease) in net assets with donor restrictions	<u>68,565</u>	<u>(13,750)</u>
Decrease in net assets	<u>(597,668)</u>	<u>(511,031)</u>
Net assets at beginning of year	<u>11,979,604</u>	12,490,635
Net assets at end of year	<u>\$ 11,381,936</u>	<u>\$ 11,979,604</u>

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses					
Salaries	\$ 408,843	\$ 152,798	\$ 87,383	\$ 240,181	\$ 649,024
Employee benefits	67,303	25,153	14,385	39,538	106,841
Payroll taxes	28,963	10,824	6,190	17,014	45,977
Total salaries and related expenses	505,109	188,775	107,958	296,733	801,842
Other expenses					
Consulting fees	61,028	-	-	-	61,028
Contract services	15,222	-	-	-	15,222
Dues and subscriptions	28,622	3,180	-	3,180	31,802
Employee training/improvement	30,831	16,365	-	16,365	47,196
Insurance	25,022	5,225	-	5,225	30,247
Interest	1,523	169	-	169	1,692
IT management and data services	74,059	8,229	-	8,229	82,288
Legal and accounting	-	91,309	-	91,309	91,309
Marketing	108,821	6,401	12,803	19,204	128,025
Meetings	16,556	1,840	-	1,840	18,396
Miscellaneous	18,715	2,079	-	2,079	20,794
Occupancy	307,400	34,156	-	34,156	341,556
Office supplies	33,191	3,688	-	3,688	36,879
Payroll administrative fee	1,629	609	348	957	2,586
Printing and postage	14,592	1,621	-	1,621	16,213
Program expenses	38,034	-	-	-	38,034
Repairs and maintenance	43,060	4,784	-	4,784	47,844
Student scholarships and sponsorships	12,613	-	-	-	12,613
Small office equipment	40,881	4,542	-	4,542	45,423
Taxes (benefit)	(40,000)	-	-	-	(40,000)
Telephone	11,004	1,223	-	1,223	12,227
Travel and entertainment	24,747	2,750	-	2,750	27,497
Total expenses before depreciation	1,372,659	376,945	121,109	498,054	1,870,713
Depreciation	363,019	40,335	-	40,335	403,354
Total expenses	\$ 1,735,678	\$ 417,280	\$ 121,109	\$ 538,389	\$ 2,274,067

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses					
Salaries	\$ 422,215	\$ 147,380	\$ 88,797	\$ 236,177	\$ 658,392
Employee benefits	61,163	22,329	13,592	35,921	97,084
Payroll taxes	29,095	10,158	6,183	16,341	45,436
Total salaries and related expenses	512,473	179,867	108,572	288,439	800,912
Other expenses					
Bad debt expense	-	1,355	-	1,355	1,355
Consulting fees	71,133	-	-	-	71,133
Contract services	5,564	-	-	-	5,564
Dues and subscriptions	27,217	2,813	-	2,813	30,030
Employee training/improvement	49,065	19,507	-	19,507	68,572
Insurance	25,167	5,212	-	5,212	30,379
Interest	2,813	245	-	245	3,058
IT management and data services	52,058	5,670	-	5,670	57,728
Legal and accounting	11,267	77,934	-	77,934	89,201
Marketing	98,825	5,599	11,198	16,797	115,622
Meetings	12,016	1,335	-	1,335	13,351
Miscellaneous	24,349	2,696	-	2,696	27,045
Occupancy	257,254	33,982	-	33,982	291,236
Office supplies	32,939	2,548	-	2,548	35,487
Payroll administrative fee	1,688	616	375	991	2,679
Printing and postage	16,263	1,807	-	1,807	18,070
Program expenses	84,562	-	-	-	84,562
Taxes	39,065	-	-	-	39,065
Repairs and maintenance	70,936	3,066	-	3,066	74,002
Student scholarships and sponsorships	39,200	-	-	-	39,200
Small office equipment	33,320	3,543	-	3,543	36,863
Telephone	10,798	1,100	-	1,100	11,898
Travel and entertainment	31,327	3,670	-	3,670	34,997
Total expenses before depreciation	1,509,299	352,565	120,145	472,710	1,982,009
Depreciation	354,956	38,557	-	38,557	393,513
Total expenses	\$ 1,864,255	\$ 391,122	\$ 120,145	\$ 511,267	2,375,522
Loss on long-lived asset					45,856
Total expenses and losses					\$ 2,421,378

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31	
	2018	2017
Operating activities		
Decrease in net assets	\$ (597,668)	\$ (511,031)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	403,354	393,513
Loss on long-lived asset	-	45,856
Provision for bad debts	-	1,355
Change in operating assets and liabilities:		
Trade accounts receivable	55,896	150,436
Note and accrued interest receivable	(8,620)	3,612
Pledges receivable	(95,492)	(57,167)
Refundable income tax	-	20,982
Inventory	-	45,544
Prepaid expenses	(21,123)	13,719
Accounts payable	8,797	(107,925)
Accrued liabilities	(112,061)	60,042
Income tax payable	(37,231)	40,010
Deferred revenue	(8,639)	986
Deposits	4,942	4,314
Net cash provided by (used in) operating activities	<u>(407,845)</u>	104,246
Investing activities		
Purchase of investments	(30,000)	(10,000)
Distribution from investment	-	72,694
Purchase of property and equipment	(77,473)	(140,521)
Net cash used in investing activities	<u>(107,473)</u>	(77,827)
Financing activity—payments on capital lease obligation	<u>(9,948)</u>	(8,218)
Increase (decrease) in cash and cash equivalents	(525,266)	18,201
Cash and cash equivalents at beginning of year	2,046,106	2,027,905
Cash and cash equivalents at end of year	<u>\$ 1,520,840</u>	<u>\$ 2,046,106</u>
Supplemental disclosure		
Interest paid	\$ 1,692	\$ 3,058

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2018

1. Organization

Northeast Indiana Innovation Center, Inc. (the NIIC) is a non-profit, community-based entrepreneurial resource center that assists in the growth and development of innovative companies in Northeast Indiana. The NIIC is a comprehensive entrepreneurial center dedicated to growing and developing ideas and businesses through shared office services; organized networking; mentorship; technical and business advisory assistance; marketing and grant research; business plan support; training services and capital access/formation. Business operations commenced in April 2000, and program services commenced in August 2001. The NIIC is the country's only ISO9001: 2015 registered business incubation and acceleration program.

The Strategic Plan Mission of Northeast Indiana Innovation Center, Inc. is as follows:

To Be Rocket Fuel for Great Ideas, People & Companies.

Its Strategic Plan Vision is as follows:

Growing & Inspiring Global Business Builders.

Innovative Property Management Group, LLC (IPMG) is a for profit limited liability company established in 2010 that is wholly-owned by the NIIC. Its goal is to invest, partner and work with entrepreneurs and founders to build entrepreneurial community and ventures that stay local and grow employment in our community. IPMG provides the NIIC and its clients property management services efficiently, effectively and economically.

Innovative Technology Group, LLC (ITG) was a for profit limited liability company established in 2011 which was 70 percent owned by IPMG. ITG provided the NIIC and its clients products and services for network design, setup and support. IPMG's interest in ITG was sold in August 2017.

Innovative Livestock Group, LLC (ILG) was a for profit limited liability company established in 2015 and was 70 percent owned by IPMG. ILG was created to be like Auto-Trader.com or EBay for livestock that is used for breeding, livestock marketing, search and sales. ILG sought to advance livestock commerce to the modern age by connecting sellers and buyers via the internet and mobile platforms. ILG ceased operations in 2018.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies

Principles of Consolidation and Noncontrolling Interest

The consolidated financial statements include the accounts of the NIIC and its wholly or majority-owned affiliates, IPMG and ILG. Significant inter-affiliate accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The NIIC maintains cash accounts at local banks. From time to time during the year, the NIIC's cash accounts exceeded federally insured limits. The NIIC performs periodic evaluations of the relative credit standing of those financial institutions that are considered in its investment strategy.

Trade Accounts Receivable

Accounts receivable are stated at cost less an allowance for doubtful accounts. On a periodic basis the NIIC evaluates its trade accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-off and collections and current credit conditions. The NIIC's policy is not to accrue interest on trade receivables. Receivables over 90 days are considered for collection on a customer-by-customer basis. Management has established an allowance for doubtful accounts of \$15,000 at December 31, 2018 and 2017, respectively.

Investments

Investments are accounted for using the cost method and reported at historical cost when the NIIC has no substantial influence over the investee (generally considered to be an investment of 20 percent or less). The fair values of the NIIC's cost method investments were not estimated at December 31, 2018 and 2017 because there were no identified events or changes in circumstances that may have had a significant adverse effect on the fair value.

Investments are accounted for using the equity method when the NIIC has significant influence over the investee's operating and financial policies (generally considered to be an investment between 20 percent and 50 percent). The NIIC had no investments accounted for using the equity method at December 31, 2018 and 2017.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost or if donated, at fair market value at date of donation, except for property and equipment that has been impaired. For impaired assets, the carrying amount is reduced to the estimated fair market value. Building and improvements and equipment with a cost or value of \$5,000 or more and a useful life of one year or more are capitalized.

Depreciation is computed by the straight-line method over the following estimated useful lives:

Building	7-39 years
Leasehold improvements	5-39 years
Lab equipment	7 years
Office equipment	3-7 years
Vehicles	7 years

Expenditures for normal repairs and maintenance are charged to expenses as incurred.

Program Service Fees, Special Event Revenue and Deferred Revenue

Program service fees and special event revenue are recognized on completion of a specific activity or event or proportionally over the period that other services take place. Deferred revenue consists of resident fees received for future periods.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions—Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions—Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Net Assets (continued)

perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be donor restricted.

Contributions and Pledges Receivable

Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions of assets other than cash are recorded at their fair market value. Contributions of services referred to herein as in-kind contributions are recognized as revenue if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and typically need to be purchased if not provided by donation. During 2018 and 2017, the fair market value of contributed goods and services recognized as revenue and expense in the accompanying statements of activities and changes in net assets was \$13,218 and \$14,288, respectively.

Pledges and grants receivable consist of unconditional promises to give that are expected to be collected in future years and grants classified as conditional promises to the extent that conditions have been met but reimbursement from the grantor has not yet been received. Pledges and grants receivable are reported as support with donor restrictions unless explicit donor stipulations or circumstances surrounding the pledge make clear the donor intended it to be used to support activities of the current period. Pledges receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions and grants in the statements of activities.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Government Grants

Support funded by government grants is recognized as NIIC performs the contracted services pursuant to grant agreements. Grant revenue is recognized as earned as the eligible expenditures are incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

The NIIC received grants from the Small Business Administration pursuant to Catalog of Federal Domestic Assistance (CFDA) number 59.043 – Women’s Business Ownership Assistance which totaled \$139,163 in 2018 and \$146,388 in 2017.

The NIIC received grants from Allen County, Indiana, which totaled \$100,000 in 2018 and 2017.

Certified Technology Park Incremental Tax Financing Funds

In 2003 the State of Indiana designated the NIIC as the State’s fifth certified technology park. This program encourages the location of high-technology businesses within areas identified by local redevelopment commissions. In 2008 the NIIC began receiving incremental tax financing funds from the State of Indiana, passed through Fort Wayne Redevelopment Commission. These funds are a portion of the tax revenues generated by tenants that are to be reinvested into the park and used for improvements, operation and maintenance of facilities, payment of interest and principal on bonds and other business generating activities. Total revenue recognized pursuant to incremental tax financing funds was \$375,813 in 2018 and \$476,061 in 2017. The incremental tax financing funds for which the NIIC currently qualifies has a limit of \$5 million. As of December 31, 2018, all \$5 million had been earned.

Advertising and Marketing

Advertising and marketing costs are expensed when incurred. Advertising and marketing costs were \$128,025 in 2018 and \$115,622 in 2017.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income Taxes

The NIIC is organized as an Indiana nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi) and has been determined not to be a private foundation under IRC Section 509(a)(1). The NIIC is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS annually. In addition, the NIIC is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. As described in *Note 1*, the NIIC has a membership interest in certain for profit limited liability companies and engages in certain other activities which are subject to tax on unrelated business income. The NIIC files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

Management believes all of the entities comprising the NIIC are no longer subject to examination by taxing authorities for years before December 31, 2015. The NIIC believes that it has appropriate support for any tax positions taken or expects to be taken on a tax return and as such, does not have any uncertain tax positions that should be recognized, measured or disclosed in the consolidated financial statements.

Use of Estimates

Preparation of the consolidated 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 in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Functional Allocation of Costs and Expenses

The cost of providing the programs and supporting services has been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance and other expenses, which are allocated on the basis of estimates of time and effort.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Recently Issued Accounting Standards

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to address questions stemming from FASB ASU No. 2014-09, *Revenue from Contracts with Customers*, regarding its implications on the grants and contracts of not-for-profit organizations. The guidance clarifies how entities determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution. The new guidance also clarifies that a contribution is conditional if the agreement includes both a barrier (or barriers) that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. ASU 2018-08 applies to resource providers and resource recipients. The new standard is effective for the NIIC in the year ending December 31, 2020. Early adoption of the amendments is permitted. The NIIC is currently evaluating the impact of the adoption of the standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. The new standard is effective for the NIIC's December 31, 2020 consolidated financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The NIIC is currently evaluating the effect of the pending adoption of the new standard on the consolidated financial statements.

Newly Adopted Accounting Standard

On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Newly Adopted Accounting Standard (continued)

liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, and investment return. The NIIC has implemented ASU 2016-14 and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 1,520,840
Trade accounts receivable	16,875
Notes receivable	44,750
Pledges receivable	129,380
	<u>\$ 1,711,845</u>

The NIIC manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that obligations will be discharged. As part of the NIIC's liquidity management plan, excess cash may be invested in short-term investments, certificates of deposit and money market funds. To help manage unanticipated liquidity needs, the NIIC has a committed line of credit from a bank in the amount of \$500,000 upon which it could draw.

The NIIC receives contributions each year from donors which are available to help meet its cash needs for general expenditures.

4. Discontinued Operations

In August 2017 the NIIC sold its 70 percent interest in ITG to the noncontrolling members. The assets, liabilities and operating results were consolidated into the NIIC's consolidated financial statements from its inception through 2016. In 2017 ITG's operations were reported as

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

4. Discontinued Operations (continued)

discontinued operations in the consolidated statement of activities. Summarized information regarding ITG's assets, liabilities and operating results as of and for the seven months ended July 31, 2017 is as follows:

Total assets	\$ 461,708
Total liabilities	236,146
Revenues	787,038
Net income	129,345

IPMG recognized a gain of \$220,288 on the sale of its interest in ITG.

During 2017 the decision was made to offer ILG for sale or transfer; therefore, its 2017 and 2018 operating results have been shown as discontinued operations on the consolidated statement of activities. ILG ceased operations in 2018.

IPMG and an outside investor formed Innovative Riverscape Group, LLC (IRG), a for profit limited liability company in June 2017. IPMG initially owned 30 percent of IRG; its ownership was increased to 40 percent in August 2017. IRG ceased operations during 2017 and is expected to be dissolved in 2019. IPMG recognized a loss of \$37,660 in 2017 in connection with its ownership of IRG, which is included in discontinued operations on the consolidated statement of activities.

5. Notes Receivable

Notes receivable consists of the following:

	December 31	
	2018	2017
Note receivable from client, 12%, payable on February 28, 2019, unsecured	\$ 25,000	\$ 25,000
Note receivable from client, 12%, payable on February 28, 2023, unsecured	49,787	-
Note receivable, 10%, payable on December 31, 2023, convertible into capital units at the lender's option	10,000	-
Note receivable from client, 10%, repaid in full in 2018	-	50,000
Accrued interest	7,750	8,917
	<u>\$ 92,537</u>	<u>\$ 83,917</u>

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

6. Pledges and Grants Receivable

Unconditional promises to give to the NIIC are recorded as pledges receivable at the present value of future cash flows. All pledges receivable at December 31, 2018 and 2017 were due within one year.

7. Investments

Investments consist of the following:

	December 31	
	2018	2017
Allied Payment Network, Inc.	\$ 113,475	\$ 93,475
BioPoly, LLC	122,469	122,469
VisionTech Elevate K12 Holdings LLC	10,000	-
Hop River Brewing Company, LLC	10,000	10,000
Other	25	25
	<u>\$ 255,969</u>	<u>\$ 225,969</u>

8. Debt Arrangements

Pursuant to a revolving line of credit arrangement with a bank, the NIIC may borrow up to \$500,000 subject to certain terms and conditions. This line of credit arrangement is secured by accounts held at the bank and expires on August 15, 2019. The line of credit arrangement bears interest at the prime rate plus 0.5 percent but may not be lower than 4 percent (6.0 percent at December 31, 2018), which is due and payable monthly. There were no borrowings pursuant to this line of credit arrangement at December 31, 2018 and 2017.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

9. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	December 31	
	2018	2017
Subject to expenditure for specified purpose:		
Student business builder program	\$ 35,000	\$ 65,000
Business development in rural areas	25,000	-
Organizational effectiveness	1,565	-
Breakthrough	37,000	-
Promises to give, the proceeds from which have been restricted by donors for		
Student business builder program	20,000	-
Organizational effectiveness	10,000	-
	<u>128,565</u>	<u>65,000</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	35,000	30,000
	<u>\$ 163,565</u>	<u>\$ 95,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

	Year ended December 31	
	2018	2017
Expiration of time restrictions	\$ 30,000	\$ 30,000
Satisfaction of purpose restrictions:		
Student business builder program	65,000	70,000
Organizational effectiveness	13,435	-
Breakthrough	5,000	-
Dock lift replacement	12,900	-
Special events	-	7,750
Parking lot energy efficiency	-	4,500
Annual Fund	-	1,000
	<u>96,335</u>	<u>83,250</u>
	<u>\$ 126,335</u>	<u>\$ 113,250</u>

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

10. Employee Benefit Plan

The NIIC sponsors a salary reduction plan under Section 401(k) of the IRC for all eligible employees. The plan allows participants to make voluntary contributions, and the employer contributes a matching contribution of 100 percent of employee contributions, up to 3 percent of eligible employee compensation. In addition, the employer may, at its discretion, make an additional profit sharing contribution to the plan. Contributions to the plan were \$36,795 in 2018 and \$30,789 in 2017.

11. Leases

In 2004 the NIIC entered into a 50-year lease with Indiana Purdue Foundation of Fort Wayne for the land on which the NIIC's facility is located at no cost to the NIIC. The NIIC is able to utilize the location to construct, maintain and operate a facility containing a high-tech business incubator. Upon termination of the lease, the facility and all other improvements on the land shall become the exclusive property of Indiana Purdue Foundation of Fort Wayne.

The NIIC leases equipment pursuant to operating leases which expire in 2018 and 2022. Total rent expense was \$6,260 in 2018 and \$3,598 in 2017.

The NIIC also leases office equipment pursuant to a capital lease which expires in December 2019. Assets recorded pursuant to this agreement included in property and equipment consists of the following:

	December 31	
	2018	2017
Telephone equipment	\$ 45,379	\$ 45,379
Less accumulated amortization	25,391	18,908
	<u>\$ 19,988</u>	<u>\$ 26,471</u>

Amortization expense was \$6,483 in 2018 and 2017 and is included in depreciation expense for financial reporting purposes.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

11. Leases (continued)

Future minimum lease payments as of December 31, 2018 pursuant to capital and operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2019	\$ 11,640	\$ 6,137
2020	970	6,137
2021	-	6,137
2022	-	3,608
Total minimum lease payments	<u>12,610</u>	<u>\$ 22,019</u>
Less amounts representing interest	<u>1,420</u>	
Capital lease obligation	<u>\$ 11,190</u>	

The NIIC leases office and laboratory facilities to tenants pursuant to operating leases which expire at various dates in 2019 through 2022. Lease revenue was \$610,040 in 2018 and \$646,752 in 2017 and is included in program service fees in the consolidated statements of activities.

Future minimum lease receipts as of December 31, 2018 pursuant to leases that have initial or remaining noncancelable terms in excess of one year are as follows:

2019	\$ 60,548
2020	36,180
2021	36,180
2022	6,030
	<u>\$ 138,938</u>

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

12. Innovation Center Campus

Innovation Center Funding

The following is a summary of the financial grants and awards to the NIIC to be used for the construction and operation of the Innovation Center. Construction was completed on September 1, 2005.

Date	Grantor	Amount	Use
January 2004	U.S. Department of Housing and Urban Development—Economic Development Initiative Funds (through the city of Fort Wayne)	\$ 795,280	Construction
January 2004	U.S. Small Business Administration	975,311	Operations
February 2004	U.S. Department of Health and Human Services	491,782	Equipment for Center
February 2004	State of Indiana (through city of Fort Wayne Redevelopment Commission)	450,000	Certified Technology Park
September 2004	State of Indiana (through Indiana University—Pursue University Fort Wayne)	1,500,000	Start Up Expenditures (Quality Improvement Fund)
September 2004	State of Indiana (through Indiana University—Pursue University Fort Wayne)	5,000,000	Construction
October 2004	City of Fort Wayne	1,500,000	Construction

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

12. Innovation Center Campus (continued)

Emerging Growth Center Funding

The construction of the Emerging Growth Center on the NIIC Campus began in November 2007. Total cost of construction was \$5,820,000 with a State of Indiana grant of \$5,000,000 providing the major funding for the construction. The grant was authorized by state legislators in December 2007 and was passed through Indiana University – Purdue University, Fort Wayne. The \$5,000,000 grant was received by the organization in January 2008. The building was completed and occupied in 2009.

13. Related Party Transactions

Certain members of the Board of Directors are employed by companies providing banking, legal services and other services to the NIIC. The fees paid to these companies were based on customary and reasonable rates for such services.

14. Subsequent Events

Management has evaluated subsequent events through February 28, 2019, the date on which the consolidated financial statements were available to be issued.

Supplementary Information

Northeast Indiana Innovation Center, Inc.

Consolidated Statements of Change in Net Assets Before Interest Expense,
Income Taxes, Depreciation and Amortization (Unaudited)

	Year ended December 31	
	2018	2017
Decrease in net assets	\$ (597,668)	\$ (511,031)
Add back:		
Interest expense	1,692	3,058
Income tax expense (benefit)	(40,000)	36,052
Depreciation and amortization	403,354	393,513
Noncash loss on long-lived asset	-	45,856
Noncash dissolution of non-controlling interest	(8,884)	72,754
Increase (decrease) in net assets before interest expense, income taxes, depreciation and amortization	\$ (241,506)	\$ 40,202

The change in net assets before interest expense, income taxes, depreciation and amortization is a non-GAAP financial measure used by management to evaluate performance and profitability.

See accompanying notes.



Report on Internal Controls

Board of Directors and Audit Committee
Northeast Indiana Innovation Center, Inc.

In planning and performing our audit of the financial statements of the Northeast Indiana Innovation Center, Inc. (referred to herein as NIIC) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the NIIC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NIIC's internal control. Accordingly, we do not express an opinion on the effectiveness of NIIC'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the NIIC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management and the Board of Directors, Audit Committee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

February 28, 2019