

Consolidated Financial Statements
and Supplementary Information

NORTHEAST INDIANA INNOVATION CENTER, INC. AND AFFILIATES

*Years ended December 31, 2019 and 2018
with Independent Auditor's Report*

Northeast Indiana Innovation Center, Inc. and Affiliates

Consolidated Financial Statements
and Supplementary Information

Years ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 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.

Haines, Asenbarger & Skiba, LLC

Fort Wayne, Indiana
February 20, 2020

Northeast Indiana Innovation Center. Inc.
Consolidated Statements of Financial Position

	December 31,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 968,467	\$ 1,520,840
Receivables:		
Trade accounts receivable, less allowances of \$35,750 in 2019 and \$15,000 in 2018	16,124	16,875
Notes receivable	83,537	92,537
Grants and contributions receivable	405,567	160,380
	505,228	269,792
Prepaid expenses	43,940	44,116
Investments	255,969	255,969
Property and equipment:		
Building	13,325,557	13,317,007
Leasehold improvements	268,488	269,403
Office equipment	1,163,455	961,716
Vehicles	59,795	59,795
	14,817,295	14,607,921
Less accumulated depreciation	5,595,017	5,150,312
	9,222,278	9,457,609
Total assets	\$ 10,995,882	\$ 11,548,326
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 51,256	\$ 39,437
Accrued liabilities	53,053	60,766
Deferred revenue	21,073	495
Deposits	51,962	54,502
Capital lease obligation	95,076	11,190
Total liabilities	272,420	166,390
Net assets:		
Without donor restrictions	10,248,562	11,218,371
With donor restrictions	474,900	163,565
Total net assets	10,723,462	11,381,936
Total liabilities and net assets	\$ 10,995,882	\$ 11,548,326

See accompanying notes.

Northeast Indiana Innovation Center. Inc.

Consolidated Statements of Activities

	Year ended December 31	
	2019	2018
Changes in net assets without donor restrictions		
Support, revenues and gains:		
Program service fees	\$ 678,092	\$ 695,664
Tax Increment Financing funding	-	375,813
Grants and contributions	463,247	263,882
Investment income	5,205	31,437
Special events revenue	70,550	115,250
less special event expense	(11,131)	(25,013)
Special events, net	<u>59,419</u>	<u>90,237</u>
Gifts in-kind	17,330	13,218
Other	<u>12,566</u>	<u>2,364</u>
	<u>1,235,859</u>	<u>1,472,615</u>
Net assets released from restrictions	<u>238,565</u>	<u>126,335</u>
Total support, revenues and gains	<u>1,474,424</u>	<u>1,598,950</u>
Expenses:		
Program services	1,854,500	1,735,678
Supporting services:		
Management and general	473,262	417,280
Fundraising	116,471	121,109
Total supporting services	<u>589,733</u>	<u>538,389</u>
Total expenses	<u>2,444,233</u>	<u>2,274,067</u>
Decrease in net assets without donor restrictions		
before discontinued operations	(969,809)	(675,117)
Discontinued operations	-	8,884
Decrease in net assets without donor restrictions	<u>(969,809)</u>	<u>(666,233)</u>
Changes in net assets with donor restrictions		
Contributions	549,900	194,900
Net assets released from restrictions	(238,565)	(126,335)
Increase in net assets with donor restrictions	<u>311,335</u>	<u>68,565</u>
Decrease in net assets	<u>(658,474)</u>	<u>(597,668)</u>
Net assets at beginning of year	<u>11,381,936</u>	<u>11,979,604</u>
Net assets at end of year	<u>\$ 10,723,462</u>	<u>\$ 11,381,936</u>

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2019

	Supporting Services				Total
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses					
Salaries	\$ 409,441	\$ 147,143	\$ 83,167	\$ 230,310	\$ 639,751
Employee benefits	51,588	18,540	10,479	29,019	80,607
Payroll taxes	28,205	10,136	5,730	15,866	44,071
Total salaries and related expenses	489,234	175,819	99,376	275,195	764,429
Other expenses					
Consulting fees	25,747	56,112	-	56,112	81,859
Contract services	65,156	-	-	-	65,156
Dues and subscriptions	32,365	3,596	-	3,596	35,961
Conferences and trainings	60,291	29,466	11,436	40,902	101,193
Insurance	27,909	3,101	-	3,101	31,010
Interest	552	62	-	62	614
IT management and data services	28,010	3,112	-	3,112	31,122
Legal and accounting	-	88,013	-	88,013	88,013
Marketing	142,714	8,394	16,790	25,184	167,898
Meetings	10,687	1,187	-	1,187	11,874
Miscellaneous	29,066	3,231	-	3,231	32,297
Occupancy	285,338	31,704	-	31,704	317,042
Office supplies	31,359	3,484	-	3,484	34,843
Payroll administrative fee	-	-	-	-	-
Printing and postage	24,510	2,723	-	2,723	27,233
Program expenses	32,247	-	-	-	32,247
Repairs and maintenance	98,211	10,913	-	10,913	109,124
Small office equipment	39,452	4,383	-	4,383	43,835
Taxes (benefit)	-	-	-	-	-
Travel and entertainment	31,418	3,491	-	3,491	34,909
Total expenses before depreciation	1,454,266	428,791	127,602	556,393	2,010,659
Depreciation	400,234	44,471	-	44,471	444,705
Total expenses allocated functionally	1,854,500	473,262	127,602	600,864	2,455,364
Less special events expenses	-	-	(11,131)	(11,131)	(11,131)
Total expenses included in the statement of activities	<u>\$ 1,854,500</u>	<u>\$ 473,262</u>	<u>\$ 116,471</u>	<u>\$ 589,733</u>	<u>\$ 2,444,233</u>

See accompanying notes.

Northeast Indiana Innovation Center. Inc.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
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
Conferences and trainings	30,831	16,365	25,013	41,378	72,209
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	44,195	4,911	-	4,911	49,106
Payroll administrative fee	1,629	609	348	957	2,586
Printing and postage	14,592	1,621	-	1,621	16,213
Program expenses	50,647	-	-	-	50,647
Repairs and maintenance	43,060	4,784	-	4,784	47,844
Small office equipment	40,881	4,542	-	4,542	45,423
Taxes (benefit)	(40,000)	-	-	-	(40,000)
Travel and entertainment	24,747	2,750	-	2,750	27,497
Total expenses before depreciation	1,372,659	376,945	146,122	523,067	1,895,726
Depreciation	363,019	40,335	-	40,335	403,354
Total expenses allocated functionally	1,735,678	417,280	146,122	563,402	2,299,080
Less special events expense included in revenue	-	-	(25,013)	(25,013)	(25,013)
Total expenses for statement of activities	\$ 1,735,678	\$ 417,280	\$ 121,109	\$ 538,389	\$ 2,274,067

See accompanying notes.

Northeast Indiana Innovation Center. Inc.

Consolidated Statements of Cash Flows

	Year ended December 31	
	2019	2018
Operating activities		
Decrease in net assets	\$ (658,474)	\$ (597,668)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	444,705	403,354
Non-cash contributions of fixed assets	(7,600)	-
Provision for bad debts	20,750	-
Change in operating assets and liabilities:		
Trade accounts receivable	(19,999)	55,896
Note and accrued interest receivable	9,000	(8,620)
Pledges receivable	(245,187)	(95,492)
Prepaid expenses	176	(21,123)
Accounts payable	11,819	8,797
Accrued liabilities	(7,713)	(149,292)
Deferred revenue	20,578	(8,639)
Deposits	(2,540)	4,942
Net cash used in operating activities	<u>(434,485)</u>	<u>(407,845)</u>
Investing activities		
Purchase of investments	-	(30,000)
Purchase of property and equipment	(95,238)	(77,473)
Net cash used in investing activities	<u>(95,238)</u>	<u>(107,473)</u>
Financing activity—payments on capital lease obligation	<u>(22,650)</u>	<u>(9,948)</u>
Decrease in cash and cash equivalents	(552,373)	(525,266)
Cash and cash equivalents at beginning of year	1,520,840	2,046,106
Cash and cash equivalents at end of year	<u>\$ 968,467</u>	<u>\$ 1,520,840</u>
Supplemental disclosure		
Interest paid	\$ 614	\$ 1,692
Non-cash capital lease obligation for property and equipment	\$ 106,536	-

See accompanying notes.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2019

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 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.

2. Significant Accounting Policies

Principles of Consolidation

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

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 \$35,750 and \$15,000 at December 31, 2019 and 2018, 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, 2019 and 2018 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, 2019 and 2018.

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.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property and Equipment (continued)

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 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.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Contributions and Grants and Contributions 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 2019 and 2018, 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 \$9,730 and \$13,218, respectively. Additionally, \$7,600 of services were contributed in 2019 which were capitalized in office equipment.

Grants and contributions 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. Grants and contributions 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. Grants and contributions 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.

Government Grants

A portion of the NIIC's revenue is derived from cost-reimbursable federal and state contracts and grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the NIIC has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The NIIC received cost-reimbursable grants of \$1,161,000 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Advertising and Marketing

Advertising and marketing costs are expensed when incurred. Advertising and marketing costs were \$167,898 in 2019 and \$128,025 in 2018.

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, 2016. 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.

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

Newly Adopted Accounting Standard

In June 2018, the Financial Accounting Standards Board (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. The NIIC implemented ASU 2018-08 prospectively on January 1, 2019.

Recently Issued Accounting Standard

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, 2021 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.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

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:

	December 31	
	2019	2018
Cash and cash equivalents	\$ 968,467	\$ 1,520,840
Trade accounts receivable	16,124	16,875
Notes receivable	12,000	44,750
Grants and contributions receivable	405,567	160,380
	1,402,158	1,742,845
Less net assets with donor-imposed restrictions for specific purposes or future time periods	(474,900)	(163,565)
	\$ 927,258	\$ 1,579,280

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. 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. Notes Receivable

Notes receivable consists of the following:

	December 31	
	2019	2018
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	37,787	49,787
Note receivable, 10%, payable on December 31, 2023, convertible into capital units at the lender's option	10,000	10,000
Accrued interest	10,750	7,750
	\$ 83,537	\$ 92,537

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

5. Grants and Contributions Receivable

Unconditional promises to give to the NIIC are recorded as grants and contributions receivable at the present value of future cash flows. Grants and contributions receivable at December 31, 2019 include \$355,567 of pledges due within one year and \$50,000 of pledges due in one to five years. All grants and contributions receivable at December 31, 2018 were due within one year.

6. Investments

Investments consist of the following:

	December 31	
	2019	2018
Allied Payment Network, Inc.	\$ 113,475	\$ 113,475
BioPoly, LLC	122,469	122,469
VisionTech Elevate K12 Holdings LLC	10,000	10,000
Hop River Brewing Company, LLC	10,000	10,000
Other	25	25
	\$ 255,969	\$ 255,969

7. 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, 2020. The line of credit arrangement bears interest at the prime rate plus 0.5 percent but may not be lower than 4 percent (5.25 percent at December 31, 2019), which is due and payable monthly. There were no borrowings pursuant to this line of credit arrangement at December 31, 2019 and December 31, 2018.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

8. Net Assets With Donor Restrictions

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

	December 31	
	2019	2018
Subject to expenditure for specified purpose:		
Connected Health Lab	\$ 100,000	\$ -
Breakthrough	279,900	37,000
Student/women entrepreneurship programs	55,000	55,000
Business development in rural areas	-	25,000
Organizational effectiveness	-	11,565
	434,900	128,565
Subject to the passage of time	40,000	35,000
	\$ 474,900	\$ 163,565

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	
	2019	2018
Expiration of time restrictions	\$ 35,000	\$ 30,000
Satisfaction of purpose restrictions:		
Connected Health Lab	50,000	-
Breakthrough	37,000	5,000
Student/women entrepreneurship programs	55,000	65,000
Organizational effectiveness	11,565	13,435
Capital improvements	25,000	12,900
Business development in rural areas	25,000	-
	203,565	96,335
	\$ 238,565	\$ 126,335

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

9. 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 \$20,366 in 2019 and \$36,795 in 2018.

10. 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 \$6,137 in 2019 and \$6,260 in 2018.

The NIIC leased a telephone system pursuant to a capital lease which expired in December 2019. In 2019 the NIIC entered into a capital lease agreement for wireless access points which expires in August 2022. Assets recorded pursuant to these agreements included in property and equipment consist of the following:

	December 31	
	2019	2018
Office equipment	\$ 187,792	\$ 45,379
Less accumulated amortization	51,653	25,391
	\$ 136,139	\$ 19,988

Amortization expense was \$26,262 and \$6,483 in 2019 and 2018, respectively, and is included in depreciation expense for financial reporting purposes.

Northeast Indiana Innovation Center, Inc.

Notes to Consolidated Financial Statements (continued)

10. Leases (continued)

Future minimum lease payments as of December 31, 2019 pursuant to capital and operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

	Capital Leases	Operating Leases
2020	\$ 41,832	\$ 6,137
2021	39,428	6,137
2022	18,826	3,608
Total minimum lease payments	<u>100,086</u>	<u>\$ 15,882</u>
Less amounts representing interest	<u>5,010</u>	
Capital lease obligation	<u>\$ 95,076</u>	

The NIIC leases office and laboratory facilities to tenants pursuant to operating leases which expire at various dates in through 2024. Lease revenue was \$621,876 in 2019 and \$610,040 in 2018 and is included in program service fees in the consolidated statements of activities.

Future minimum lease receipts as of December 31, 2019 pursuant to leases that have initial or remaining noncancelable terms in excess of one year are as follows:

2020	\$ 158,248
2021	158,248
2022	128,100
2023	122,071
2024	22,032
	<u>\$ 588,699</u>

11. 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.

12. Subsequent Events

Management has evaluated subsequent events through February 20, 2020, 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	
	2019	2018
	<hr/>	<hr/>
Decrease in net assets	\$ (658,474)	\$ (597,668)
Add back:		
Interest expense	614	1,692
Income tax expense (benefit)	-	(40,000)
Depreciation and amortization	444,705	403,354
Noncash dissolution of non-controlling interest	-	(8,884)
	<hr/>	<hr/>
Decrease in net assets before interest expense, income taxes, depreciation and amortization	\$ (213,155)	\$ (241,506)
	<hr/> <hr/>	<hr/> <hr/>

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.