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June 28, 2018

Board of Directors
16 Tech Community Corporation
111 Monument Circle, Suite 1800
Indianapolis, IN 46204

We have reviewed the report prepared by 16 Tech Community Corporation and opined upon by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period September 4, 2015 to December 31, 2016. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of 16 Tech Community Corporation as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Katz, Sapper & Miller, LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

16Tech

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2016

16 TECH COMMUNITY CORPORATION

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Independent Auditors' Report

Board of Directors
16 Tech Community Corporation

We have audited the accompanying financial statements of 16 Tech Community Corporation, which comprise the statement of financial position as of December 31, 2016, and the related statement of activities, and cash flows for the period from September 4, 2015 (inception) to December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Services* established by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 16 Tech Community Corporation as of December 31, 2016, and the change in its net assets and its cash flows for the period from September 4, 2015 (inception) to December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana

June 5, 2017

16 TECH COMMUNITY CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

ASSETS

Cash	\$ 2,711,966
Accounts receivable	56,755
Prepaid expenses	12,884
Construction in progress	<u>2,601,722</u>

TOTAL ASSETS

\$ 5,383,327

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 94,886
Accrued interest - related party	11,535
Notes payable - related party	<u>413,163</u>
Total Liabilities	<u>519,584</u>

NET ASSETS

Unrestricted	3,821,736
Temporarily restricted	<u>1,042,007</u>
Total Net Assets	<u>4,863,743</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 5,383,327

See accompanying notes.

16 TECH COMMUNITY CORPORATION

STATEMENT OF ACTIVITIES

Period from September 4, 2015 (Inception) to December 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND SUPPORT			
Infrastructure funding - City of Indianapolis	\$ 3,895,063		\$ 3,895,063
Philanthropic grants	1,950,000	\$ 40,000	1,990,000
CIF funding - City of Indianapolis		1,000,000	1,000,000
Contributions	102,877		102,877
Realized loss on investments	(13,008)		(13,008)
Interest income	1,164	2,007	3,171
Total Revenue, Gains and Support	5,936,096	1,042,007	6,978,103
EXPENSES			
Infrastructure planning and development	1,219,865		1,219,865
Legal and professional fees	626,922		626,922
Consulting fees	116,377		116,377
Branding and communications	82,427		82,427
Insurance	13,094		13,094
Start up costs	34,351		34,351
Interest expense	11,535		11,535
Miscellaneous	9,789		9,789
Total Expenses	2,114,360		2,114,360
INCREASE IN NET ASSETS	3,821,736	1,042,007	4,863,743
NET ASSETS			
Beginning of Period	-	-	-
End of Period	\$ 3,821,736	\$ 1,042,007	\$ 4,863,743

See accompanying notes.

16 TECH COMMUNITY CORPORATION
STATEMENT OF CASH FLOWS
Period from September 4, 2015 (Inception) to December 31, 2016

OPERATING ACTIVITIES	
Increase in net assets	\$ 4,863,743
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in certain assets:	
Accounts receivable	(56,755)
Prepaid expenses	(12,884)
Increase in certain liabilities:	
Accounts payable	76,726
Accrued interest - related party	11,535
Net Cash Provided by Operating Activities	<u>4,882,365</u>
INVESTING ACTIVITIES	
Construction in progress	<u>(2,583,562)</u>
Net Cash Used by Investing Activities	<u>(2,583,562)</u>
FINANCING ACTIVITIES	
Borrowings on notes payable - related party	<u>413,163</u>
Net Cash Provided by Financing Activities	<u>413,163</u>
NET INCREASE IN CASH	2,711,966
CASH	
Beginning of Period	<u>-</u>
End of Period	<u><u>\$ 2,711,966</u></u>
SUPPLEMENTAL DISCLOSURES	
Noncash investing and financing activities:	
Construction in progress financed with accounts payable	\$ 18,160

See accompanying notes.

16 TECH COMMUNITY CORPORATION

NOTES TO FINANCIAL STATEMENTS December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: 16 Tech Community Corporation (16 Tech) is an Indiana non-profit corporation and a Type 1 supporting organization that is exempt from federal taxation through Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code. 16 Tech was formed in September 2015 to deliver a new approach to economic growth and innovation in Indianapolis. Using a “place-making” strategy, 16 Tech has developed an innovation district (the “Innovation District”) designed to foster development, job opportunities, and a new vitality in a blighted area of Indianapolis’ urban core. The Innovation District is a 60-acre zone of economic activity designed to engender collaboration and innovation among Indiana’s advanced industries and leading entrepreneurs. The co-location of these industries, along with university resources, research facilities, and wrap-around quality-of-life services, supports the economic revitalization of the northwest side of downtown and will have a positive impact on the larger metropolis.

16 Tech was formed with the intention:

- (a) To foster and enhance economic development; talent attraction, development and retention; and entrepreneurial growth in the City of Indianapolis (the City);
- (b) To promote, encourage and assist in the development of a knowledge community and related technology park that will attract and retain new employers and related jobs to the City;
- (c) To foster and support scientific research and related technology transfer;
- (d) To serve as a multi-disciplinary health and wellness hub for the community, employers and the individuals that live and work within the Innovation District;
- (e) To promote, further and support the efforts of the Supported Organizations (as defined below) in their strategic and coordinated efforts to create a downtown technology district that will revitalize the surrounding community, and will attract employers, including but not limited to life science, information technology and other technology-intensive companies, and increase the visibility and leadership of the City nationally and abroad; and
- (f) To create, further or support educational and workforce programs that strengthen the Innovation District and surrounding community.

16 Tech is operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Supported Organizations. 16 Tech’s Supported Organizations are Indiana University, Indiana University Health, Inc., Indiana Biosciences Research Institute, Inc. (IBRI), The Health and Hospital Corporation of Marion County, Central Indiana Corporate Partnership, Inc. (CICP) and the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Tech programs and activities focus on operations, Innovation District infrastructure development and community revitalization.

16 Tech Operating Activities – 16 Tech has secured funding from the City, philanthropic organizations, and individuals to support the development of the Innovation District, community revitalization efforts, and operating expenses, which includes research efforts. 16 Tech is in the process of acquiring the land where the Innovation District will reside. In addition, 16 Tech has contracted with a national search firm to identify a full-time, permanent CEO to lead the organization. In addition, 16 Tech has developed key relationships with neighborhood organizations and leaders, who will help to inform community revitalization activities.

Innovation District Infrastructure Development Activities – 16 Tech is in the process of acquiring land for the Innovation District and has begun infrastructure planning. A developer has been identified to lead the project and contract agreements are in process.

Community Revitalization Activities – The City has provided initial funding of a Community Investment Fund (CIF), which will be used to provide education and workforce development training programs for residents of neighborhoods adjacent to the Innovation District.

Basis of Presentation: The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and classify 16 Tech's activities and net assets based on the existence or absence of donor-imposed restrictions. Accordingly, 16 Tech's net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets represent unrestricted resources available to support 16 Tech's activities.

Temporarily Restricted Net Assets represent gifts that are subject to donor-imposed purpose or time restrictions that can be fulfilled either by actions of 16 Tech pursuant to those restrictions, with the passage of time, or both. Upon satisfaction of such restrictions, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents consist of cash on hand or in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. 16 Tech maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. 16 Tech has not experienced any losses from its bank accounts.

Investment Valuation and Income Recognition: Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All investments have been liquidated to cash as of December 31, 2016.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Realized and unrealized gains and losses on investments are included in the statement of activities.

Accounts Receivable are stated at the amount due to 16 Tech under performance-based grants and agreements. Management determined that no allowance for doubtful accounts receivable was necessary at December 31, 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction in Progress represents costs incurred on the construction of assets that have not been completed or placed in service as of the end of the year. At December 31, 2016, construction in progress of \$2,601,722 was recorded and consists primarily of design costs associated with road, utility and bridges within the Innovation District. Costs identified as having perpetual value to the created infrastructure have been identified for capitalization, while other costs have been expensed as infrastructure planning and development expenses.

Philanthropic Grants and Contributions are recognized as support and revenues when they are received or unconditionally pledged. 16 Tech reports such gifts as restricted support and revenues if they are subject to time or donor-imposed restrictions. Conditional contributions are not recorded as support and revenues until the conditions are met.

Infrastructure Funding – City of Indianapolis are classified as exchange transactions, which are reciprocal transfers between two entities in which goods and services of equal value are exchanged, and are not recognized until services are performed or allowable expenditures are incurred as specified in the contracts. See Note 7. Infrastructure funding and certain other grants are subject to audit by the government or granting agency, and as a result of such audit, adjustments to revenue and support could be required.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in Note 4. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes: 16 Tech is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. There was no unrelated business income for the period from September 4, 2015 to December 31, 2016. 16 Tech files U.S. federal and Indiana information tax returns. The initial information returns were filed for the year ended December 31, 2015.

Subsequent Events: Management has evaluated the financial statements for subsequent events occurring through June 5, 2017, the date the financial statements were available to be issued. See Notes 7 and 9.

NOTE 2 - NOTES PAYABLE - RELATED PARTY

16 Tech has two unsecured notes payable to the IBRI. The interest rate on outstanding borrowings is 3%. The notes and related accrued interest are due at maturity on December 31, 2018. The notes arose from certain start-up costs which were paid by IBRI on behalf of 16 Tech.

Notes payable - related party consisted of the following at December 31, 2016:

Note 1 payable to IBRI	\$213,163
Note 2 payable to IBRI	<u>200,000</u>
Total Long-term Debt	<u>\$413,163</u>

Total interest expense was \$11,535 in the period from September 4, 2015 to December 31, 2016.

NOTE 3 - NET ASSETS

Unrestricted Net Assets

Unrestricted net assets consisted of the following as of December 31, 2016:

Undesignated	<u>\$3,821,736</u>
Total Unrestricted Net Assets	<u>\$3,821,736</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2016:

Program Restricted:	
Community Revitalization Activities	\$1,017,007
Innovation District infrastructure development activities	<u>25,000</u>
Total Temporarily Restricted Net Assets	<u>\$1,042,007</u>

For the period from September 4, 2015 to December 31, 2016, there were no net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

NOTE 4 - FUNCTIONAL EXPENSES

Expenses by functional classifications for the period from September 4, 2015 to December 31, 2016, were as follows:

Program services	\$1,832,501
Administrative and general	<u>281,859</u>
Total Expenses	<u>\$2,114,360</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

16 Tech recognized contributions of \$102,377 from a member of its Board of Directors in the period from September 4, 2015 to December 31, 2016. 16 Tech has a management agreement with CICIP to provide certain management and accounting functions at no cost. 16 Tech has notes payable and accrued interest due to IBRI (see Note 2).

NOTE 6 - CONCENTRATIONS OF FUNDING

Payments from the City to 16 Tech for infrastructure expenses and the CIF accounted for 70% of total revenue for the period from September 4, 2015 to December 31, 2016. Grant funding from Lilly Endowment Inc. provided 24% of total revenue in the period from September 4, 2015 to December 31, 2016.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

City of Indianapolis Project Agreement

In November 2015, the Indianapolis' City County Council approved \$75 million in Economic Development Tax Increment Revenue Bonds (TIF) to enable the infrastructure improvements at the Innovation District and the establishment of the CIF. Of the approved \$75 million financing, \$55.8 million was budgeted for design and construction of infrastructure and the remainder is available to cover costs of issuance and capitalized interest. On December 31, 2015, 16 Tech signed a project agreement (the Agreement) with the City's Local Public Improvement Bond Bank, which defined the terms of 16 Tech's access to and use of the TIF funds and the CIF. As part of the Agreement, the City provided an initial \$5.2 million of TIF funding to 16 Tech to cover legal expenses and the initial cost of design work on the infrastructure. These funds are available on a reimbursement basis and are separately presented on the statement of activities. To access the remainder of the TIF funds, 16 Tech must meet several milestones, including:

- Receive binding agreements for at least \$85 million of total investment in the Innovation District, including the IBRI headquarters building;
- Gain control from current landowners of all land necessary to effect 16 Tech's initial master plan;
- Finalize 16 Tech's master plan and land covenants and receive approval of these documents from the City; and
- Receive designation by the Internal Revenue Service as a 501(c)(3) not-for-profit organization.

In addition to approving the \$75 million for infrastructure improvements, the City approved \$3 million for the CIF, which will fund education and workforce training programs for residents of neighborhoods adjacent to the Innovation District. To date, 16 Tech has received \$1 million of this amount, which is included in temporarily restricted contributions and grants on the statement of activities. The remaining \$2 million is contingent upon commencement of construction of IBRI headquarters and a second building at 16 Tech (\$1 million) and completion of the IBRI headquarters (\$1 million). As of December 31, 2016, the additional \$2 million was not recognized as revenue as it represents a conditional grant. These funds will be recognized upon completion of the conditions per the agreement.

The Agreement details economic development objectives that 16 Tech must meet to ensure compliance with the Agreement including:

- Specific employment levels by entities located in the Innovation District;
- Utilization by real estate developers in the Innovation District of disadvantaged business entities, including minority- and women-owned business entities for construction of the Innovation District;
- Workforce utilization goals, including minority and female employment, during the construction of the Innovation District; and
- Collection of a "community investment assessment" of twenty cents per square foot of redevelopment or new construction properties on the 16 Tech campus, with the funds directed to the CIF.

If 16 Tech has not met specific investment commitment and construction activity milestones by December 31, 2016, December 31, 2017, and December 31, 2021, as specified in the Agreement, the City may exercise certain rights to undeveloped property in the Innovation District. The environmental issues described below have delayed progress on the development of the Innovation District and impaired the ability of 16 Tech to achieve the milestones anticipated to be achieved by the end of 2016. 16 Tech and the City are currently in negotiations to revise the Agreement to reflect new circumstances and the delays caused by these issues.

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Environmental Issues

In April 2016, the development of 16 Tech and surrounding land was complicated by an announcement by the U.S. Environmental Protection Agency (EPA) that it was considering placing the aquifers under downtown Indianapolis on the National Priorities List (NPL) to address contamination potentially impacting the water being drawn from those aquifers by the City's drinking water utility (the Utility). Inclusion of a property on the NPL is commonly referred to as a "superfund site" because the listing theoretically enables environmental issues at the site to be addressed with federal funding. Because the 16 Tech footprint encompasses several source wells, the maps used by the EPA and the Indiana Department of Environmental Management (IDEM), the state regulator, showed 16 Tech as part of the proposed "superfund site." This proposal created significant issues for development of the 16 Tech real estate and slowed the development process by more than a year.

After intense dialogue among the regulators at the EPA, IDEM, the City, the Utility, and 16 Tech and its stakeholders, IDEM determined that its original request to seek federal assistance to address the condition of the aquifers was mistaken and that it no longer desired an NPL designation, saying:

"IDEM no longer believes [this site] is an NPL caliber site that should be addressed by the Superfund program. Had all of these data and factors been known in August of 2015, IDEM would not have proposed [this site] for the Superfund program. For these reasons, IDEM respectfully requests that the U.S. EPA not include [this site] on the NPL." (IDEM Letter to EPA dated August 18, 2016)

IDEM went on to explain that testing data from the period 2006 to 2016 indicated that the levels of contaminants in the wellfields were decreasing. In addition, the contaminants in the raw water supply were below the EPA's Maximum Contaminant level for drinking water, except for one well located east of Fall Creek at Citizens Water Treatment Facility, some distance from 16 Tech. In lieu of the proposed NPL listing, IDEM will work with Citizens and the City to address any remaining issues. Local control speeds the process to identify any issues with the aquifers and keeps local stakeholders informed and engaged. It also avoids the "superfund" nomenclature and the resulting complexities and delays of real estate development.

To date, the EPA has indicated a willingness to consider relying solely on IDEM's management of the concerns moving forward in lieu of a NPL listing. The regulators are working through a contract outlining IDEM's responsibilities and methodologies, with a plan to allow the aquifers to remain subject to state jurisdiction. Based upon the status of the discussions between the two regulators to date, 16 Tech anticipates having the contract in place within 90 days. However, the ongoing issues of federal government organizational policy, particularly those impacting the EPA, may cause a delay in this date. The resolution of this issue directly impacts the timing and level of prospective development within the Innovation District.

NOTE 8 - STATE AND LOCAL GOVERNMENT GRANTS

The following is a summary of 16 Tech's state and local government grant expenditures for the period ended December 31, 2016:

City of Indianapolis:	
16 Tech Project: Infrastructure – Phase 1	<u>\$3,895,063</u>
Total	<u>\$3,895,063</u>

NOTE 9 - SUBSEQUENT EVENTS

Effective June 1, 2017, 16 Tech hired a full-time Chief Executive Officer. The CEO will report to the 16 Tech Board of Directors and be responsible for the management of the entity.

On March 1, 2017, the Richard M. Fairbanks Foundation (RMFF) awarded a grant to 16 Tech in the amount of up to \$2,000,000 to support its operations in 2017 and 2018. The grant is contingent upon 16 Tech reaching specific operational milestones over the next two years. 16 Tech is eligible to receive up to \$750,000 in 2017 and \$1,250,000 in 2018. After reaching the first milestone in April 2017, RMFF released the first milestone payment of \$500,000 to 16 Tech in May 2017.