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# STATE OF INDIANA

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July 11, 2018

Board of Directors
Flagship Enterprise Center, Inc.
2701 Enterprise Dr.
Anderson, IN 46103

We have reviewed the report prepared by Flagship Enterprise Center, Inc. and opined upon by Capin Crouse LLP, Independent Public Accountants, for the period June 1, 2016 to May 31, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Flagship Enterprise Center, Inc. as of May 31, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Capin Crouse 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

FLAGSHIP ENTERPRISE CENTER, INC.
AND AFFILIATE

Consolidated Financial Statements
With Independent Auditors' Report
and
Federal Awards in Accordance with the
Uniform Guidance

Year Ended May 31, 2017

CAPINCROUSE LLP

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

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CAPINCROUSE LLP

## INDEPENDENT AUDITORS' REPORT

Board of Directors
Flagship Enterprise Center, Inc. and Affiliate
Anderson, Indiana

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Flagship Enterprise Center, Inc. and Affiliate, which comprise the consolidated statements of financial position as of May 31, 2017 and 2016, and the related consolidated statements of activities 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.

***Auditors' 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 and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 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.

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Board of Directors
Flagship Enterprise Center, Inc. and Affiliate
Anderson, Indiana

***Opinion***
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flagship Enterprise Center, Inc. and Affiliate as of May 31, 2017 and 2016, and the changes in the consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter***
As discussed in Note 1 to the consolidated financial statements, the accompanying consolidated financial statements are those of Flagship Enterprise Center, Inc. and Affiliate and are not those of the primary reporting entity. Consolidated financial statements of Anderson University and Affiliates for the years ended May 31, 2017 and 2016, will be issued separately with the independent auditors' report date September 28, 2017. Our opinion is not modified with respect to that matter.

**Report on Supplementary Information**
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of state and local government assistance on page 34, as required by Indiana State Board of Accounts, is also presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards,* we have also issued our report dated September 28, 2017 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Capin Crouse LLP

Greenwood, Indiana
September 28, 2017

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

## Consolidated Statements of Financial Position

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents: | | |
| Available for operations | $ 1,403,437 | $ 2,759,069 |
| Available for loan program | 1,572,796 | 520,117 |
| Loan loss reserve | 1,162,462 | 642,792 |
| | 4,138,695 | 3,921,978 |
| Accounts receivable–net | 489,395 | 73,770 |
| Notes receivable–net | 4,122,801 | 2,275,488 |
| Grants receivable | 88,595 | 43,888 |
| Other assets | 233,608 | 136,275 |
| Intangible assets–net | 2,947,500 | 3,165,833 |
| Property held for sale | 2,210,905 | - |
| Property and equipment–net | 20,382,733 | 13,700,140 |
| Total Assets | $ 34,614,232 | $ 23,317,372 |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable | $ 183,692 | $ 87,807 |
| Accrued expenses | 43,680 | 28,045 |
| Deferred revenue | 16,667 | 116,667 |
| Debt: | | |
| Loan program debt | 5,125,345 | 2,279,554 |
| Building debt | 2,109,921 | 2,233,561 |
| | 7,235,266 | 4,513,115 |
| | 7,479,305 | 4,745,634 |
| Net assets: | | |
| Unrestricted | 27,041,271 | 12,510,666 |
| Temporarily restricted | 93,656 | 6,061,072 |
| | 27,134,927 | 18,571,738 |
| Total Liabilities and Net Assets | $ 34,614,232 | $ 23,317,372 |

See notes to consolidated financial statements

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

## Consolidated Statements of Activities

| | 2017 Unrestricted | 2017 Temporarily Restricted | 2017 Total | 2016 Unrestricted | 2016 Temporarily Restricted | 2016 Total |
|---|---|---|---|---|---|---|
| | Year Ended May 31, | | | | | |
| SUPPORT AND REVENUE: | | | | | | |
| Support: | | | | | | |
| Gifts and grants | $ 372,643 | $ 104,095 | $ 476,738 | $ 981,738 | $ 113,888 | $ 1,095,626 |
| Gift-in-kind | 67,502 | 9,075,776 | 9,143,278 | 3,549,977 | 6,000,372 | 9,550,349 |
| | 440,145 | 9,179,871 | 9,620,016 | 4,531,715 | 6,114,260 | 10,645,975 |
| Revenue: | | | | | | |
| Rental income | 822,192 | - | 822,192 | 779,808 | - | 779,808 |
| Microloan program | 254,448 | - | 254,448 | 165,909 | - | 165,909 |
| Community Advantage program | 309,396 | - | 309,396 | 232,228 | - | 232,228 |
| Other income | 33,190 | - | 33,190 | 1,772 | - | 1,772 |
| | 1,419,226 | - | 1,419,226 | 1,179,717 | - | 1,179,717 |
| Net Assets Released from Restrictions | 15,147,287 | (15,147,287) | - | 75,688 | (75,688) | - |
| Total Support and Revenue and Net Assets Released from Restrictions | 17,006,658 | (5,967,416) | 11,039,242 | 5,787,120 | 6,038,572 | 11,825,692 |
| EXPENSES: | | | | | | |
| Program services | 1,788,949 | - | 1,788,949 | 1,300,357 | - | 1,300,357 |
| Supporting activities: | | | | | | |
| General and administration | 505,417 | - | 505,417 | 239,774 | - | 239,774 |
| Fund-raising | 181,687 | - | 181,687 | 136,660 | - | 136,660 |
| | 687,104 | - | 687,104 | 376,434 | - | 376,434 |
| Total Operating Expenses | 2,476,053 | - | 2,476,053 | 1,676,791 | - | 1,676,791 |
| Change in Net Assets | 14,530,605 | (5,967,416) | 8,563,189 | 4,110,329 | 6,038,572 | 10,148,901 |
| Net Assets, Beginning of Year | 12,510,666 | 6,061,072 | 18,571,738 | 8,400,337 | 22,500 | 8,422,837 |
| Net Assets, End of Year | $ 27,041,271 | $ 93,656 | $ 27,134,927 | $ 12,510,666 | $ 6,061,072 | $ 18,571,738 |

See notes to consolidated financial statements

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

## Consolidated Statements of Cash Flows

| | Year Ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ 8,563,189 | $ 10,148,901 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 537,509 | 475,327 |
| Noncash contributions | (9,143,278) | (9,550,349) |
| Changes in: | | |
| Notes and accounts receivable–net | (2,233,818) | (695,934) |
| Grants receivable | (44,707) | (21,388) |
| Other assets | (29,831) | (50,339) |
| Accounts payable | 66,765 | 78,696 |
| Accrued expenses | (84,365) | 125,675 |
| Net Cash Provided (Used) by Operating Activities | (2,368,536) | 510,589 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (136,898) | (89,212) |
| Net Cash Used by Investing Activities | (136,898) | (89,212) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from debt | 5,680,519 | 2,517,979 |
| Payments on debt | (2,958,368) | (2,175,308) |
| Net Cash Provided by Financing Activities | 2,722,151 | 342,671 |
| Change in Cash and Cash Equivalents | 216,717 | 764,048 |
| Cash and Cash Equivalents, Beginning of Year | 3,921,978 | 3,157,930 |
| Cash and Cash Equivalents, End of Year | $ 4,138,695 | $ 3,921,978 |
| Cash and Cash Equivalents: | | |
| Available for operations | 1,403,437 | 2,759,069 |
| Available for loan program | 1,572,796 | 520,117 |
| Loan loss reserve | 1,162,462 | 642,792 |
| | $ 4,138,695 | $ 3,921,978 |
| SUPPLEMENTAL DISCLOSURE: | | |
| Cash paid for interest (none capitalized) | $ 160,262 | $ 128,335 |
| Noncash contributions | $ 9,143,278 | $ 9,550,349 |

See notes to consolidated financial statements

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Notes to Consolidated Financial Statements**

May 31, 2017 and 2016

1. NATURE OF ORGANIZATION:

The Flagship Enterprise Center, Inc. (Center) was organized to foster economic and community development in and around Anderson, Indiana, and to address economic, workforce development and educational needs of the city and its citizenry. Through organizations such as the Indiana Economic Development Corporation (IEDC), the Small Business Administration (SBA), and the US Department of Commerce (DOC), the footprint of the Center has expanded to central Indiana and beyond.

The Center nurtures new and established businesses through connections with experienced business owners, Anderson University Falls School of Business faculty and students, venture capitalists, government entities, technology personnel, and others, with the end goal being the creation of sustainable jobs. The Center was created through a unique partnership between Anderson University and the City of Anderson. Collaborating activities now also include Purdue University Polytechnic, IVY Tech Community College, and others.

The Center operates as a business incubator and advanced stage business accelerator, and as such generates income through the rental of office and lab space. As of May 31, 2017, the Center had 275,464 square feet of office, lab, and light manufacturing space available for rent, with approximately 69% of the available space occupied. The Center is the lead SBA Microloan lender in the state of Indiana, with approximately 94% of all microloans generated in Indiana originating at the Center. The Center also receives annual subsidies from the City of Anderson, grants from federal and state sources, and individual donations. Expenses are primarily comprised of salaries, program operating costs, building upgrades and utilities.

As a supplement to the Center's loan programs, the Center created a separate legal entity to pursue Community Development Financial Institution status. This separate legal entity, Flagship Enterprise Capital, Inc. (Capital), was granted CDFI status as of May 5, 2017. Capital is a mission-driven financial institution that helps provide financial services to meet the needs of economically disadvantaged individuals within underserved communities. Capital has received an exemption from payment of federal income tax pursuant to Code Section 501(c)(3) and is classified as a public charity under Code Section 170(b)(1)(A)(vi). The Capital's Board of Directors is appointed by the Center's Board of Directors and is consolidated within the Center's financial statements.

The Center is classified as a tax exempt 501(c)(3) organization by the IRS. As such, it is exempt from federal and state income tax, and contributions by the public are deductible for income tax purposes. However, the Center is subject to federal income tax on any unrelated business taxable income. In addition, the Center is not considered to be a private foundation.

Anderson University (University) has effective control of the Center as the President of the University elects the majority of the Center's board of directors. The financial information of the Center is consolidated in the financial reporting of Anderson University.

2. SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF FINANCIAL STATEMENTS AND PRINCIPLES OF CONSOLIDATION
The significant accounting policies followed by the Center are described below to enhance the usefulness of the consolidated financial statements to the reader. The 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

The consolidated financial statements include the operations of the Center and Capital. All significant intercompany transactions are eliminated.

CASH, CASH EQUIVALENTS, AND CREDIT RISK
Cash and cash equivalents–available for operations consist of cash on hand, checking, savings, and money market accounts that are not held for long-term purposes. At May 31, 2017 and 2016, the cash accounts maintained with large financial institutions exceeded federally insured (FDIC) limits by approximately $3,043,132 and $2,138,000, respectively. The Center believes it is not exposed to any significant credit risk on these accounts. The Center is also required to maintain separate cash accounts as a reserve against its loans. As of May 31, 2017 and 2016, the amount held in separate accounts was approximately $1,162,000 and $643,000, respectively.

NOTES AND ACCOUNTS RECEIVABLE
Notes and accounts receivable are reported net of any anticipated losses due to uncollectible accounts. Uncollectible accounts are reported as additions to the allowance for bad debts when it is determined the amounts will become uncollectible. Management uses historical collection and aging of receivables to estimate allowances for doubtful accounts. After a loan is 120 days past due, the loan will be sent to collections or written off.

The Center participates in the SBA's Community Advantage program, which allows for the Center to support the community with loans up to $250,000. The SBA guarantees a portion, either 75 or 85 percent, of the loan issued by the Center. The Center services the loan, but has the ability to sell the guaranteed portion to a third party. The Center accounts for these transfers of financial assets in accordance with the *Transfers and Servicing* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

CONTRIBUTIONS AND GRANTS RECEIVABLE
Contributions and grants receivable (unconditional promises to give) are recognized as income when made. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the pledges are to be received. Management believes all grants receivable balances are collectible; therefore, no provision for uncollectible accounts was made.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

OTHER ASSETS
Other assets for the Center consist of deposits and prepaid expenses.

INTANGIBLE ASSETS
Intangible assets consist of donated intellectual property which is amortized over its useful life of 15 years on a straight line basis. (See Note 5). The Center anticipates generating licensing revenue for research and development through these intangible assets.

PROPERTY HELD FOR SALE
The Center has one property held for sale as of May 31, 2017. A purchase agreement has been signed for the Accelerator 1 building located in Anderson, Indiana, and is expected to close prior to September 30, 2017, for $3,200,000.

PROPERTY, EQUIPMENT, AND DEPRECIATION
Property and equipment over $500 are capitalized and reported at cost at date of acquisition or fair value at date of gift. Depreciation expense is provided over the estimated useful lives of the assets on a straight-line basis.

Useful lives are generally as follows:

| | |
|---|---|
| Buildings | 15-39 years |
| Furnishings | 5-10 years |
| Computer and other general equipment | 3-10 years |

NET ASSETS
*Unrestricted net assets* include general assets and liabilities of the Center as well as the net investment in property, plant, and equipment. Unrestricted net assets may be used at the discretion of management to support the Center's purposes and operations.

*Temporarily restricted net assets* include assets for which donor-imposed restrictions have not been met in the same fiscal year.

REVENUE, SUPPORT, AND NET ASSETS RELEASED FROM RESTRICTIONS
Revenue is reported when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Center. The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Center reports restricted gifts and grants, in which the restriction is met in the same fiscal year, as unrestricted gifts and grants.

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE, SUPPORT, AND NET ASSETS RELEASED FROM RESTRICTIONS, continued
Noncash gifts are recorded at their estimated fair market value on the date of donation. The Center reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

EXPENSES AND FUNCTIONAL ALLOCATION OF EXPENSES
Expenses are reported when incurred. The consolidated financial statements present expenses by functional classification in accordance with the overall service mission of the Center. Each functional classification displays most expenses related to the underlying operations by natural classification. The Center incurred no joint costs for 2017 or 2016.

Advertising costs are expensed when incurred. Advertising costs included in the consolidated statements of activities for the years ended May 31, 2017 and 2016, were approximately $24,000 and $13,000, respectively.

CHANGE IN ACCOUNTING ESTIMATE
Effective June 1, 2016, management changed its depreciation policy by assigning a 40 percent salvage value to all its buildings, which previously had no salvage values. In accordance with the provisions of the *Accounting Changes and Error Corrections* topic of the FASB ASC, this change in estimate is applied to the current year and will apply to subsequent years. There has been no restatement or retrospective adjustment of prior periods. Under the new policy, depreciation expense for the year ended May 31, 2017, was approximately $95,000 less than what it would have been under the old policy.

3. NOTES AND ACCOUNTS RECEIVABLE:

Notes and accounts receivable consist of:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Center: | | |
| Microloans receivable | $ 2,906,283 | $ 1,909,081 |
| Community Advantage loans receivable | 1,307,793 | 426,578 |
| Accounts receivable | 493,049 | 75,763 |
| | 4,707,125 | 2,411,422 |
| Less allowances: | | |
| Allowance for doubtful microloans | (88,173) | (51,554) |
| Allowance for doubtful Community Advantage loans | (26,417) | (8,617) |
| Allowance for doubtful accounts | (3,654) | (1,993) |
| | (118,244) | (62,164) |
| | $ 4,588,881 | $ 2,349,258 |
| Capital: | | |
| Microloans receivable | $ 24,036 | $ - |
| Less allowance for doubtful microloans | (721) | - |
| | $ 23,315 | $ - |
| | $ 4,612,196 | $ 2,349,258 |

The above allowances for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired notes, and economic conditions. Allowances for impaired notes are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on loans, it is at least reasonably possible that management's estimate of losses inherent in the notes receivable portfolio and the related allowance may change materially in the near term.

As of May 31, 2017 and 2016, the Center was in compliance with the loan loss reserve requirements for the Microloan program and the Community Advantage program.

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES:

Allowance for credit losses and recorded investment in financing receivables:

| | Year Ended May 31, 2017 | | | |
|---|---|---|---|---|
| | Microloans | Accounts receivable | Community Advantage loans | Total |
| Allowance for credit losses: | | | | |
| Beginning balance | $ 51,554 | $ 1,993 | $ 8,617 | $ 62,164 |
| Charge-offs | - | - | - | - |
| Recoveries | - | - | - | - |
| Provision | 36,619 | 1,661 | 17,800 | 56,080 |
| Ending balance: collectively evaluated for impairment | $ 88,173 | $ 3,654 | $ 26,417 | $ 118,244 |
| Financing receivables: | | | | |
| Ending balance: collectively evaluated for impairment | $ 2,906,283 | $ 493,049 | $ 1,307,793 | $ 4,707,125 |

| | Year Ended May 31, 2016 | | | |
|---|---|---|---|---|
| | Microloans | Accounts receivable | Community Advantage loans | Total |
| Allowance for credit losses: | | | | |
| Beginning balance | $ 31,169 | $ 2,675 | $ 1,239 | $ 35,083 |
| Charge-offs | - | (682) | - | (682) |
| Recoveries | - | - | - | - |
| Provision | 20,385 | - | 7,378 | 27,763 |
| Ending balance: collectively evaluated for impairment | $ 51,554 | $ 1,993 | $ 8,617 | $ 62,164 |
| Financing receivables: | | | | |
| Ending balance: collectively evaluated for impairment | $ 1,909,081 | $ 75,763 | $ 426,578 | $ 2,411,422 |

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES, continued:

Credit quality indicators based on payment activity as of May 31, 2017:

| | Microloans | Accounts receivable | Community Advantage loans | Total |
|---|---|---|---|---|
| Deferral status | $ - | $ - | $ - | $ - |
| Repayment status: | | | | |
| Performing | 2,906,283 | 482,409 | 1,307,793 | 4,696,485 |
| Non Performing | - | 10,640 | - | 10,640 |
| Total | $ 2,906,283 | $ 493,049 | $ 1,307,793 | $ 4,707,125 |

Credit quality indicators based on payment activity as of May 31, 2016:

| | Microloans | Accounts receivable | Community Advantage loans | Total |
|---|---|---|---|---|
| Deferral status | $ - | $ - | $ - | $ - |
| Repayment status: | | | | |
| Performing | 1,909,081 | 75,763 | 426,578 | 2,411,422 |
| Non Performing | - | - | - | - |
| Total | $ 1,909,081 | $ 75,763 | $ 426,578 | $ 2,411,422 |

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES, continued:

Age analysis of past due financing receivables as of May 31, 2017:

| | Microloans | Accounts receivable | Community Advantage loans | Total |
|---|---|---|---|---|
| 30-60 days past due | $ 180 | $ 2,101 | $ - | $ 2,281 |
| 61-90 days past due | 540 | - | - | 540 |
| Greater than 90 days past due | - | 10,640 | - | 10,640 |
| Total past due | 720 | 12,741 | - | 13,461 |
| Current | 2,905,563 | 480,308 | 1,307,793 | 4,693,664 |
| | $ 2,906,283 | $ 493,049 | $ 1,307,793 | $ 4,707,125 |

Age analysis of past due financing receivables as of May 31, 2016:

| | Microloans | Accounts receivable | Community Advantage loans | Total |
|---|---|---|---|---|
| 30-60 days past due | $ 6,530 | $ 10,907 | $ - | $ 17,437 |
| 61-90 days past due | 1,242 | 2,500 | - | 3,742 |
| Greater than 90 days past due | - | - | - | - |
| Total past due | 7,772 | 13,407 | - | 21,179 |
| Current | 1,901,309 | 62,356 | 426,578 | 2,390,243 |
| | $ 1,909,081 | $ 75,763 | $ 426,578 | $ 2,411,422 |

5. INTANGIBLE ASSETS–NET OF AMORTIZATION:

Intangible assets consist of intellectual property pertaining to the electrification of cars and commercial vehicles.

| | May 31, | |
|---|---|---|
| | 2017 | 2016 |
| Intellectual property | $ 3,275,000 | $ 3,275,000 |
| Less accumulated amortization | (327,500) | (109,167) |
| | $ 2,947,500 | $ 3,165,833 |

Total amortization expense for the years ended May 31, 2017 and 2016, was $218,333 and $109,167, respectively.

6. PROPERTY AND EQUIPMENT–NET OF DEPRECIATION:

Property and equipment consist of the following:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Land and land improvements | $ 1,320,331 | $ 1,320,331 |
| Building | 19,712,491 | 8,247,338 |
| Furniture and equipment | 1,257,115 | 1,138,616 |
| | 22,289,937 | 10,706,285 |
| Less accumulated depreciation | (1,907,204) | (2,299,962) |
| | 20,382,733 | 8,406,323 |
| Construction in progress | - | 5,293,817 |
| | $ 20,382,733 | $ 13,700,140 |

Total depreciation expense for the years ended May 31, 2017 and 2016, was $319,176 and $366,160, respectively.

CONSTRUCTION IN PROGRESS

During the fiscal year ended May 31, 2016, the Center began construction on the Flagship East, a 90,000 square foot educational, technology and business start-up facility in Anderson, Indiana. Pursuant to a bond purchase agreement dated August 1, 2015, between the City of Anderson, Indiana (City) and KeyBank National Association, the City approved the issuance of its Economic Development Revenue Bonds for $15,000,000 to finance the costs of constructing the facility. The bond issuance is reported in the City's financial records and is not an obligation of the Center. Construction costs are paid by the City up to the $15,000,000 bond issuance and are reported in construction in progress on the consolidated statements of financial position and as gift-in-kind support on the consolidated statements of activities. As of May 31, 2017, the facility had been fully placed into service.

7. DEBT:

Debt consists of:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Loan program debt: | | |
| Note payable to SBA, due in monthly installments, with interest of 1.25%, maturing October 1, 2021, secured by a reserve, notes receivable, and guaranteed by the Center. | $ 72,858 | $ 89,526 |
| Note payable to SBA, due in monthly installments, with interest of 0.875%, maturing May 1, 2022, secured by a reserve, notes receivable, and guaranteed by the Center. | 138,880 | 166,660 |
| Note payable to SBA, due in monthly installments, with interest of 0.75%, maturing July 1, 2023, secured by a reserve, notes receivable, and guaranteed by the Center. | 350,467 | 406,542 |
| Note payable to SBA, due in monthly installments, with interest of 1.625%, maturing May 28, 2024, secured by a reserve, notes receivable, and guaranteed by the Center. | 828,459 | 944,346 |
| Bank line of credit ($500,000), dated September 14, 2016, variable interest rate according to the Wall Street Journal Prime Rate (effective rate of 4.0%), maturing September 14, 2017, secured by a reserve and notes receivable relating to the line of credit. Subsequent to year end, maturity on this line of credit was extended to November 14, 2017. | 480,891 | 174,900 |
| Bank line of credit ($750,000), dated February 21, 2017, variable interest rate according to the Wall Street Journal Prime Rate (effective rate of 4.0%), maturing February 21, 2018, secured by a reserve and notes receivable relating to the line of credit. | 728,862 | 161,312 |
| Bank line of credit ($500,000), dated November 1, 2016, variable interest rate according to the Wall Street Journal Prime Rate (effective rate of 4.0%), maturing November 5, 2017, secured by a reserve and notes receivable relating to the line of credit. | 250,954 | - |

(continued)

7. DEBT, continued:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Loan program debt, continued: | | |
| Bank line of credit ($5,000,000), dated April 26, 2017, variable interest rate according to the Wall Street Journal Prime Rate (effective rate of 4.0%), maturing October 26, 2018, secured by a reserve and notes receivable relating to the line of credit. As of May 31, 2017, there were no outstanding borrowings on this line of credit. | - | - |
| Bank line of credit ($500,000), dated April 14, 2017, variable interest rate according to the Wall Street Journal Prime Rate (effective rate of 4.0%), maturing April 14, 2018, secured by a reserve and notes receivable relating to the line of credit. | 23,974 | - |
| Convertible line of credit ($750,000), dated July 20, 2015, interest at 3.50%, maturing July 20, 2022, secured by a reserve and all business assets. Line of credit was paid in full. | - | 230,000 |
| Note payable ($120,000), dated October 23, 2015, with interest charged at a variable rate of 0.50% points over the Wall Street Journal Prime Rate, maturing October 23, 2022, secured by business assets. Note payable was paid in full. | - | 106,268 |
| Note payable to SBA, due in monthly installments, with interest of 1.375%, maturing May 31, 2026, secured by a reserve, notes receivable, and guaranteed by the Center. | 1,250,000 | - |
| Unsecured bond debenture bear interest at 3.00%, principal due in monthly installments, beginning September 1, 2018, and maturing February 1, 2021. Coborrowing arrangement between the Center and Capital. | 1,000,000 | - |
| Note payable to SBA, authorized for $2,100,000 in May 2017, due in monthly installments, with interest of 2.0% per annum, maturing May 17, 2027. As of May 31, 2017, funds had not yet been drawn to the Center. See Note 16. | - | - |
| | $ 5,125,345 | $ 2,279,554 |

(continued)

7. DEBT, continued:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Building debt: | | |
| Note payable, due in monthly installments, with interest of 4.50%, maturing October 1, 2017, secured by real estate, balloon payment due October 2017. | $ 2,109,921 | $ 2,233,561 |
| | $ 7,235,266 | $ 4,513,115 |

Debt matures as follows:

| Year Ending May 31, | |
|---|---|
| 2018 | $ 3,810,459 |
| 2019 | 539,390 |
| 2020 | 603,070 |
| 2021 | 925,067 |
| 2022 | 338,721 |
| Thereafter | 1,018,559 |
| | $ 7,235,266 |

Interest expense was $147,263 and $138,333 for the years ended May 31, 2017 and 2016, respectively.

DEBT COVENANTS

In connection with the debt above, among other terms, the Center's debt covenants require:

- Certain limitations on incurring additional secured debt
- Provision of annual audited financial statements
- Provision of requested financial reports to banks
- Maintain net worth over $14,500,000
- Minimum liquidity over $1,000,000
- Debt service ratio at least 1.2 to 1.0
- Operating liquidity ratio at least 1.2 to 1.0
- Maintain a loan loss reserve in an amount equal to 20% of outstanding principal amount of the debenture

The Center was in compliance with, or had received waivers for, all financial and reporting covenants at May 31, 2017 and 2016.

8. UNRESTRICTED NET ASSETS:

Unrestricted net assets consist of:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Undesignated (deficit) | $ 3,822,296 | $ (118,822) |
| Designated | 2,735,258 | 1,162,909 |
| Net investment in property held for sale | 100,984 | - |
| Net investment in property and equipment | 20,382,733 | 11,466,579 |
| | $ 27,041,271 | $ 12,510,666 |

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consists of:

| | May 31, 2017 | May 31, 2016 |
|---|---|---|
| Time restriction: | | |
| Grant receivable | $ 88,595 | $ 43,888 |
| Flagship East (gift-in-kind contributions reported in construction in progress) | - | 6,000,372 |
| | 88,595 | 6,044,260 |
| Purpose restriction: | | |
| Flagship East manufacturing space | - | 5,000 |
| CDFI grant | - | 7,000 |
| Accelerator program | 4,773 | 4,812 |
| Other | 288 | - |
| | 5,061 | 16,812 |
| | $ 93,656 | $ 6,061,072 |

10. GIFT-IN-KIND:

Gift-in-kind support consists of:

| | Year Ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| Donated property, plant, and equipment | $ 9,075,776 | $ 6,197,847 |
| Donated intellectual property | - | 3,275,000 |
| Donated software | 67,502 | 77,502 |
| | $ 9,143,278 | $ 9,550,349 |

11. RELATED PARTY ACTIVITIES:

Related party activities included rent and salary expense of $212,494 and $149,838, paid to Anderson University for the years ended May 31, 2017 and 2016, respectively. The Center contributed $100,000 and $-0- to Anderson University for the years ended May 31, 2017 and 2016, respectively. The Center's board has authorized a grant payable to Anderson University for $50,000 as of May 31, 2017.

12. EMPLOYEE BENEFITS:

RETIREMENT PLAN

Employees working full-time may participate in the 401k retirement plan after completion of a waiting period based on employment category. A contribution up to 3% by the employee is required in order to receive a matching contribution up to 7% from the Center. All contributions are fully vested from the initial contribution. For the years ended May 31, 2017 and 2016, total employer contributions was approximately $16,973 and $28,000, respectively.

OTHER BENEFITS

The Center offers health insurance through TilsonHR, its professional employer organization. For employees who elect to participate in the plan, the Center reduces the employees' salaries for the cost of the plan. There were no employer contributions for health insurance for the years ended May 31, 2017 and 2016. Employees working full-time are eligible for basic group term life insurance and short-term disability insurance, at the expense of the Center. Coverage expires at termination of employment.

13. CONCENTRATION OF SUPPORT:
For the year ended May 31, 2017, the Center received 99 percent of its total reported contributions and grants from two entities. For the year ended May 31, 2016, the Center received 99 percent of its total contributions from three entities.

14. LEASE AS LESSOR:
The Center leases space to various organizations under noncancellable operating leases requiring future minimum rental payments through January 2032, as follows:

| Year Ending May 31, | |
|---|---|
| 2018 | $ 886,058 |
| 2019 | 794,062 |
| 2020 | 489,167 |
| 2021 | 292,500 |
| 2022 | 292,500 |
| Thereafter | 2,803,125 |
| | $ 5,557,412 |

The Center's rental income for the years ended May 31, 2017 and 2016, was approximately $822,192 and $779,800, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK:

Accounting principles generally accepted in the United States of America require all entities to disclose certain information about their financial instruments. Specifically, all entities are required to disclose the risk of an accounting loss from a financial instrument. The possibility that a loss may occur from the failure of another party to perform according to the terms of a contract represents credit risk.

The Center's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Center uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments are fixed as to the maximum dollar amount that is available to a particular customer. The making of the commitment itself may require the payment of a fee. Not all commitments have the full amount of the approved funds advanced upon execution of the loan, and some do not fully utilize the entire commitment established. Consequently, the total commitment amounts do not necessarily represent future cash requirements. As of May 31, 2017 and 2016, the Center did not have any outstanding loan commitments.

As part of the Microloan program administered through the Small Business Administration (SBA), the Center is considered a loan intermediary and makes loans to small businesses. The credit worthiness of each loan applicant is assessed on a case-by-case basis. Default risk on microloans is monitored when the applicants are evaluated through a series of interviews, completion of the loan application, review of two years of tax returns, review of business financial statements and personal credit scores. In accordance with the SBA, the Center considers all loans 120 days past due in default. Currently, the interest rate charged is 5.0 percent to 8.5 percent on microloans. As of May 31, 2017 and 2016, the Center considered zero and two microloans in default, respectively. These defaulted loans have been written off and sent to collections.

The Center is an approved participant in the SBA's Community Advantage Pilot Program. The Center makes loans to small businesses with a focus on underserved markets. Default risk on community advantage loans is monitored when the applicants are evaluated through a series of interviews, completion of the loan application, review of two years of tax returns, review of business financial statements and personal credit scores. The Center considers all community advantage loans 60 days past due in default. As of May 31, 2017 and 2016, the Center did not consider any community advantage microloans in default.

16. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through September 28, 2017, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

In August 2017, the Center drew $1,000,000 of the $2,100,000 SBA note payable.

# FEDERAL AWARDS

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Schedule of Expenditures of Federal Awards**

Year Ended May 31, 2017

| Federal Grantor/Pass Through Grantor/Program or Cluster Title | Federal CFDA Number | Agreement Number | Federal Expenditures |
|---|---|---|---|
| U.S. SMALL BUSINESS ADMINISTRATION | | | |
| Microloan Program: | 59.046 | | |
| Microloans (Note C) | | N/A | $ 3,678,078 |
| Technical assistance grant | | SBAHQ15Y0097 | 21,944 |
| Technical assistance grant | | SBAHQ16Y0028 | 378,994 |
| | | | 4,079,016 |
| 7 (a) Loan Guarantees (Note D) | 59.012 | | |
| Community Advantage Pilot Loan Program | | N/A | 5,096,923 |
| Total Small Business Administration | | | 9,175,939 |
| Total Expenditures of Federal Awards | | | $ 9,175,939 |

See notes to schedule of expenditures of federal awards

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Notes to Schedule of Expenditures of Federal Awards**

May 31, 2017

A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of Flagship Enterprise Center, Inc. (Center) under programs of the federal government for the year ending May 31, 2017. The information in the schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial consolidated statements. Although the Center is required to match certain grants, as defined by the grants, no such matching has been included as expenditures in the schedule.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Center has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

C. MICROLOANS:

The Small Business Administration (SBA) Microloan program is funded by loans from the SBA to the Center. From the SBA loans, the Center then makes small business microloans to eligible participants.

| | May 31, 2017 | |
|---|---|---|
| | Number of Loans | Amount |
| Outstanding Microloans balance | 151 | $ 1,942,270 |
| Microloans disbursed during the fiscal year | 120 | $ 2,056,176 |

Due to the continuing compliance requirements, for purposes of the Schedule, the amount reported includes the outstanding loan balance at the beginning of the fiscal year plus new loans disbursed during the fiscal year.

The outstanding loans payable to SBA under this program as of May 31, 2017, total $1,390,664. See consolidated financial statement Note 7 for additional details.

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Notes to Schedule of Expenditures of Federal Awards**

May 31, 2017

D. LOAN GUARANTEES:

The Center has been designated by the SBA as a community advantage lender. The loans made by the Center under this program are guaranteed by SBA at 85% for loans less than $150,000 and 75% for loans greater than $150,000 and up to $250,000. The Center sells the guaranteed portion of the loan in a secondary market, however still remains responsible for servicing the loans in their entirety.

| | May 31, 2017 | |
|---|---|---|
| | Number of Loans | Amount |
| Outstanding Community Advantage loan balance | 32 | $ 4,582,937 |
| Community Advantage loans disbursed in the fiscal year | 17 | $ 2,777,000 |
| Outstanding SBA Loan Guarantees | 29 | $ 3,275,144 |

Due to the continuing compliance requirements, for purposes of the Schedule, the amount reported includes the outstanding loan balance at the beginning of the fiscal year plus new loans disbursed during the fiscal year.

E. RELATIONSHIP TO CONSOLIDATED FINANCIAL STATEMENTS:

The amount of total expenditures of federal awards reconciles to the revenue in the consolidated statement of activities as follows:

| | |
|---|---|
| Total expenditures of federal awards | $ 9,175,939 |
| Less: | |
| Loan and loan guarantees | (8,775,001) |
| Plus: | |
| SBA conference stipend not subject to audit requirements | 1,100 |
| Federal grant revenue included in gifts and grants on the statement of activities | $ 402,038 |

F. SUBRECIPIENTS, NON-CASH ASSISTANCE, AND FEDERAL INSURANCE:

The Center did not provide any federal funds to subrecipients nor did they receive any federal non-cash assistance or insurance.

CAPINCROUSE LLP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Flagship Enterprise Center, Inc. and Affiliate
Anderson, Indiana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statement of Flagship Enterprise Center, Inc. and Affiliate (Center), which comprise the statements of consolidated financial position as of May 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2017.

***Internal Control Over Financial Reporting***
In planning and performing our audits of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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***Compliance and Other Matters***
As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Center in a separate letter dated September 28, 2017.

***Purpose of This Report***
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Capin Crouse LLP

Greenwood, Indiana
September 28, 2017

CAPINCROUSE LLP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Flagship Enterprise Center, Inc. and Affiliate
Anderson, Indiana

**Report on Compliance for Each Major Federal Program**
We have audited Flagship Enterprise Center, Inc. and Affiliate's (Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended May 31, 2017. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***
Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

***Opinion on Each Major Federal Program***
In our opinion, Flagship Enterprise Center, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2017.

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Board of Directors
Flagship Enterprise Center, Inc. and Affiliate
Anderson, Indiana

**Report on Internal Control Over Compliance**
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

***Purpose of This Report***
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Capin Crouse LLP

Greenwood, Indiana
September 28, 2017

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Schedule of Findings and Questioned Costs**

May 31, 2017

Section I - Summary of Audit Results

**Consolidated Financial Statements:**

Type of auditors' report issued: unmodified

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | | yes | ✔ | no |
| • Significant deficiency(ies) identified that are not considered a material weakness? | | yes | ✔ | none reported |
| Noncompliance material to consolidated financial statements noted? | | yes | ✔ | no |

**Federal Awards:**

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| • Material weakness(es) identified? | | yes | ✔ | no |
| • Significant deficiency(ies) identified that are not considered a material weakness? | | yes | ✔ | none reported |

Type of auditors' report issued on compliance for major programs: unmodified

| | | | | |
|---|---|---|---|---|
| Any audit findings that are required to be reported in accordance with 2 CFR Part 200.516(a)? | | yes | ✔ | no |

Identification of major program(s):

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 59.046 | SBA Microloans |

Dollar threshold used to distinguish between type A and type B programs: $750,000

| | | | | |
|---|---|---|---|---|
| Auditee qualified as low-risk auditee? | | yes | ✔ | no |

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Schedule of Findings and Questioned Costs**

May 31, 2017

Section II - Financial Statement Findings

There are no current findings in internal control over financial reporting required to be reported in accordance with *Government Auditing Standards.*

Section III - Federal Award Findings and Questioned Costs

There are no current year findings that were considered material instances of noncompliance in accordance with Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Auditee Summary Schedule of Prior Audit Findings**

May 31, 2017

Financial Statement Findings

**2016-001 Monitoring of Regulatory Compliance Requirements**

*Significant Deficiency:* The Center doesn't have a formally documented compliance framework or a risk management plan for ensuring regulatory compliance.

*Recommendation:* It was recommended the Center formally document its compliance framework, including identification of all current legal and regulatory compliance requirements as well as instituting a risk management plan for identifying and evaluating compliance requirements for future contracts and/or federally funded award programs prior to entering into legally-binding agreements.

*Current Status:* FEC completed a formally documented compliance framework and a risk management plan during FY 2016-2017.

*Reason for Reoccurring Finding and Planned Corrective Action:* Not applicable as finding has been corrected.

Federal Award Findings

There were no prior year findings or questioned costs.

# STATE AND LOCAL AWARDS

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

## Schedule of State and Local Government Financial Assistance

Year Ended May 31, 2017

| Grantor/Pass Through Grantor/Program Name | Agreement Number | Type of Funding | A/R (Advance) at BOY | Received | Disbursed | A/R (Advance) at EOY |
|---|---|---|---|---|---|---|
| CITY OF ANDERSON: | | | | | | |
| Flagship East Project (Note C) | | Financing | $ - | $ 9,075,776 | $ 9,075,776 | $ - |
| Building Grant | | direct local award | - | 9,200 | 9,200 | - |
| Total City of Anderson | | | - | 9,084,976 | 9,084,976 | - |
| Total state and local government financial assistance | | | $ - | $ 9,084,976 | $ 9,084,976 | $ - |

See notes to schedule of state and local government financial assistance

# FLAGSHIP ENTERPRISE CENTER, INC. AND AFFILIATE

**Notes to Schedule of State and Local Government Financial Assistance**

May 31, 2017

A. BASIS OF PRESENTATION:

The accompanying schedule of state and local government financial assistance (the schedule) includes the financial assistance activity of Flagship Enterprise Center, Inc. and Affiliate (Center) under programs of the State of Indiana and local Indiana governmental agencies for the year ending May 31, 2017. The information in the schedule is presented in accordance with the requirements of Indiana State Board of Accounts. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the consolidated basic financial statements. The schedule does not include direct federal grant activity or federal grant activity passed through from the State of Indiana as these programs are already included on the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The schedule is reported on the accrual basis of accounting.

C. FLAGSHIP EAST PROJECT:

The City of Anderson and the Center entered into an agreement whereby the Center was to build an economic development facility financed by the City of Anderson with municipal revenue bonds. This project is known as the Flagship East Building. As the project progressed, the City of Anderson paid the construction costs directly and the Center recorded these transactions as gift-in-kind and construction in progress. The schedule reflects only construction costs incurred in the fiscal year, not total project costs. The building was placed in service May 2017.