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August 27, 2020

Board of Directors
Delaware Advancement Corporation
401 S. High Street
Muncie, IN 47305

We have reviewed the audit report of Delaware Advancement Corporation which was opined upon by Whiting & Company LLC, Independent Public Accountants, for the period October 1, 2018 to September 30, 2019. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Delaware Advancement Corporation as of September 30, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Whiting & Company LLC prepared the audit report in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

**DELAWARE ADVANCEMENT
CORPORATION
MUNCIE, INDIANA**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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WHITINGER & COMPANY^{LLC}
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware Advancement Corporation
Muncie, Indiana

We have audited the accompanying financial statements of Delaware Advancement Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the years then ended, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 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 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.

Board of Directors
Delaware Advancement Corporation
Page Two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware Advancement Corporation as of September 30, 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.

A handwritten signature in black ink that reads "W. F. Steiner + Company LLC". The signature is written in a cursive, flowing style.

Certified Public Accountants
Muncie, Indiana

March 12, 2020

FINANCIAL STATEMENTS

DELAWARE ADVANCEMENT CORPORATION

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,316,308	\$ 1,633,099
Accounts receivable, net of allowance for doubtful accounts of \$5,000 as of September 30, 2019 and 2018	126,158	105,029
Contributions receivable, net of allowance and discount of \$30,252 and \$43,803 as of September 30, 2019 and 2018, respectively	384,248	510,697
Inventory	23,959	23,464
Note receivable	69,797	125,634
Real estate held for sale	978,534	978,534
Investment property	14,255,516	14,105,516
Beneficial interest in endowments	13,337	12,746
Prepaid expenses	36,442	26,223
Property and equipment, net	<u>1,874,816</u>	<u>1,455,551</u>
Total Assets	<u>\$ 19,079,115</u>	<u>\$ 18,976,493</u>
LIABILITIES		
Accounts payable	\$ 16,100	\$ 57,580
Accrued expenses	101,434	112,092
Deposits	150,809	109,613
Notes payable	<u>14,048,218</u>	<u>14,014,804</u>
Total Liabilities	<u>\$ 14,316,561</u>	<u>\$ 14,294,089</u>
NET ASSETS		
Without donor restrictions		
Current operations	\$ 1,962,548	\$ 1,973,761
Residual interest funds	<u>2,401,920</u>	<u>2,185,200</u>
	<u>\$ 4,364,468</u>	<u>\$ 4,158,961</u>
With donor restrictions		
Subject to purpose and time restrictions	\$ 388,086	\$ 513,443
Perpetual in nature	<u>10,000</u>	<u>10,000</u>
	<u>\$ 398,086</u>	<u>\$ 523,443</u>
Total Net Assets	<u>\$ 4,762,554</u>	<u>\$ 4,682,404</u>
Total Liabilities and Net Assets	<u>\$ 19,079,115</u>	<u>\$ 18,976,493</u>

See accompanying Notes to Financial Statements.

DELAWARE ADVANCEMENT CORPORATION

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUE AND OTHER SUPPORT			
Operating rental and commissions	\$ 303,215		\$ 303,215
Office lease rental	25,193		25,193
Investment property income	823,735		823,735
Civic Center Authority			
Operating support	1,174,251		1,174,251
Capital improvements	565,636		565,636
Contributions		\$ 159,051	159,051
Grants	10,000	5,000	15,000
Redevelopment Commission	92,526		92,526
Catering revenue	1,041,675		1,041,675
Other revenue	47,262		47,262
Change in value of beneficial interest in endowments		592	592
Interest	10,793		10,793
	<u>\$ 4,094,286</u>	<u>\$ 164,643</u>	<u>\$ 4,258,929</u>
Net assets released from restriction	290,000	(290,000)	
Total Revenue and Other Support	<u>\$ 4,384,286</u>	<u>\$ (125,357)</u>	<u>\$ 4,258,929</u>
COSTS AND EXPENSES			
Program services			
Economic development	\$ 1,095,517		\$ 1,095,517
Convention Center program	1,670,866		1,670,866
Catering	991,814		991,814
Redevelopment Commission	92,526		92,526
Live Near Your Work			
Micro Loan	7		7
Total Program Services	<u>\$ 3,850,730</u>		<u>\$ 3,850,730</u>
Management and general	286,260		286,260
Fundraising	41,789		41,789
Total Costs and Expenses	<u>\$ 4,178,779</u>		<u>\$ 4,178,779</u>
CHANGE IN NET ASSETS	\$ 205,507	\$ (125,357)	\$ 80,150
NET ASSETS, BEGINNING OF YEAR	<u>4,158,961</u>	<u>523,443</u>	<u>4,682,404</u>
NET ASSETS, END OF YEAR	<u>\$ 4,364,468</u>	<u>\$ 398,086</u>	<u>\$ 4,762,554</u>

See accompanying Notes to Financial Statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 340,335		\$ 340,335
25,193		25,193
671,064		671,064
1,149,240		1,149,240
491,450		491,450
	\$ 333,067	333,067
20,500		20,500
93,652		93,652
1,053,229		1,053,229
32,880		32,880
	1,045	1,045
6,462		6,462
<u>\$ 3,884,005</u>	<u>\$ 334,112</u>	<u>\$ 4,218,117</u>
285,376	(285,376)	
<u>\$ 4,169,381</u>	<u>\$ 48,736</u>	<u>\$ 4,218,117</u>
\$ 982,442		\$ 982,442
1,653,309		1,653,309
917,349		917,349
93,652		93,652
11,819		11,819
<u>\$ 3,658,571</u>		<u>\$ 3,658,571</u>
276,466		276,466
39,748		39,748
<u>\$ 3,974,785</u>		<u>\$ 3,974,785</u>
\$ 194,596	\$ 48,736	\$ 243,332
3,964,365	474,707	4,439,072
<u>\$ 4,158,961</u>	<u>\$ 523,443</u>	<u>\$ 4,682,404</u>

DELAWARE ADVANCEMENT CORPORATION

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Miscellaneous cash received	\$ 47,137	\$ 34,785
Grants received	10,000	20,500
Operating cash received	4,004,052	3,850,401
Interest received	10,793	6,462
Interest paid	(666,872)	(574,501)
Cash paid to suppliers and employees	<u>(3,275,388)</u>	<u>(3,101,178)</u>
Net Cash Provided By Operating Activities	<u>\$ 129,722</u>	<u>\$ 236,469</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (680,889)	\$ (282,414)
Proceeds from sale of equipment	125	5,200
Investment in property	<u>(150,000)</u>	<u>(1,624,794)</u>
Net Cash Used By Investing Activities	<u>\$ (830,764)</u>	<u>\$ (1,902,008)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from restricted contributions	\$ 295,000	\$ 281,951
Cash received on note receivable	55,837	375,079
Proceeds from note payable	150,000	1,624,794
Payments on notes payable	<u>(116,586)</u>	<u>(432,339)</u>
Net Cash Provided By Financing Activities	<u>\$ 384,251</u>	<u>\$ 1,849,485</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ (316,791)</u>	<u>\$ 183,946</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,633,099</u>	<u>1,449,153</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,316,308</u></u>	<u><u>\$ 1,633,099</u></u>

See accompanying Notes to Financial Statements.

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>2019</u>	<u>2018</u>
CHANGE IN NET ASSETS	<u>\$ 80,150</u>	<u>\$ 243,332</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	\$ 261,625	\$ 252,352
Cash received from restricted contributions	(295,000)	(281,951)
(Gain) loss on sale of equipment	(125)	1,905
Change in value of beneficial interest in endowments	(592)	(1,045)
Changes in assets		
Accounts receivable	(21,129)	26,466
Contributions receivable	126,449	(47,691)
Inventory	(495)	8,461
Prepaid expenses	(10,219)	1,199
Changes in liabilities		
Accounts payable	(41,480)	(12,276)
Accrued expenses	(10,658)	6,327
Deposits	<u>41,196</u>	<u>39,390</u>
TOTAL ADJUSTMENTS	<u>\$ 49,572</u>	<u>\$ (6,863)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 129,722</u></u>	<u><u>\$ 236,469</u></u>

DELAWARE ADVANCEMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Economic Development	Convention Center	Catering	Redevelopment Commission
Salaries	\$ 203,021	\$ 738,453	\$ 241,303	\$ 71,860
Payroll taxes	12,980	54,602	17,281	5,497
Benefits	24,391	118,433	46,971	5,099
Maintenance	10,142	49,554	9,928	2,264
Supplies	1,304	88,209	40,470	408
Telephone	3,728	14,230	2,083	1,269
Postage and shipping	7	749		60
Rents	14,569			
Occupancy		257,941	21,292	
Bad debts	(4,500)	1,050		
Travel	9,241	16,663	1,552	557
Depreciation	1,319	179,867	51,117	276
Insurance	3,151	37,628	4,476	73
Dues and subscriptions	412	3,399	232	
Training	6,353	8,423	4,318	
Marketing	30,111	83,577		
Professional fees	11,225	10,557	1,572	1,095
License fees		1,325		
Miscellaneous	576	6,206	14,380	
Special programs	4,500			
Interest	762,987			
Catering expenses			534,839	
Management services				4,068
	<u>\$ 1,095,517</u>	<u>\$ 1,670,866</u>	<u>\$ 991,814</u>	<u>\$ 92,526</u>

See accompanying Notes to Financial Statements.

Micro Loan	Total Program Services	Management and General	Fundraising	Total Expenses
	\$ 1,254,637	\$ 141,039	\$ 20,149	\$ 1,415,825
	90,360	10,120	1,446	101,926
	194,894	22,632	3,233	220,759
	71,888	8,302	1,186	81,376
	130,391	13,991	2,191	146,573
	21,310	2,390	341	24,041
	816	81	13	910
	14,569	1,737	248	16,554
	279,233	30,400	4,713	314,346
	(3,450)			(3,450)
	28,013	3,274	468	31,755
	232,579	25,128	3,918	261,625
	45,328	5,396	771	51,495
	4,043	482	69	4,594
	19,094	2,277	325	21,696
	113,688	13,557	1,937	129,182
	24,449	2,785	398	27,632
	1,325	145	22	1,492
\$ 7	21,169	2,524	361	24,054
	4,500			4,500
	762,987			762,987
	534,839			534,839
	4,068			4,068
\$ 7	\$ 3,850,730	\$ 286,260	\$ 41,789	\$ 4,178,779

DELAWARE ADVANCEMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Economic Development</u>	<u>Convention Center</u>	<u>Catering</u>	<u>Redevelopment Commission</u>
Salaries	\$ 210,265	\$ 752,156	\$ 266,703	\$ 72,960
Payroll taxes	17,926	51,020	17,724	5,476
Benefits	43,918	129,298	40,269	4,928
Maintenance	7,500	37,424	4,652	1,542
Supplies	9,263	83,638	36,759	196
Telephone	3,525	13,248	1,872	1,440
Postage and shipping		904	70	86
Rents	13,469			
Occupancy		251,013	12,614	
Bad debts	3,425	228		
Travel	9,473	14,884	4,187	926
Depreciation	823	177,305	45,459	116
Insurance	3,054	41,616	4,491	136
Dues and subscriptions	166	1,019	640	
Training	3,892	2,542	2,613	
Marketing	26,069	76,095		
Professional fees	12,864	12,124	2,690	1,598
License fees		1,212		
Miscellaneous	522	7,583	14,950	
Interest	616,288			
Catering expenses			461,656	
Management services				4,248
	<u>\$ 982,442</u>	<u>\$ 1,653,309</u>	<u>\$ 917,349</u>	<u>\$ 93,652</u>

See accompanying Notes to Financial Statements.

<u>Live Near Your Work</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
	\$ 1,302,084	\$ 137,812	\$ 19,690	\$ 1,459,586
	92,146	9,718	1,388	103,252
	218,413	23,936	3,419	245,768
	51,118	5,559	794	57,471
	129,856	14,538	2,077	146,471
	20,085	2,090	299	22,474
	1,060	102	15	1,177
	13,469	1,510	216	15,195
	263,627	27,607	4,195	295,429
	3,653			3,653
	29,470	3,200	457	33,127
	223,703	25,068	3,581	252,352
	49,297	5,512	787	55,596
	1,825	205	29	2,059
	9,047	1,014	145	10,206
	102,164	11,455	1,636	115,255
	29,276	3,103	443	32,822
	1,212	127	19	1,358
	23,055	2,585	369	26,009
	616,288			616,288
	461,656			461,656
<u>\$ 11,819</u>	<u>16,067</u>	<u>1,325</u>	<u>189</u>	<u>17,581</u>
<u>\$ 11,819</u>	<u>\$ 3,658,571</u>	<u>\$ 276,466</u>	<u>\$ 39,748</u>	<u>\$ 3,974,785</u>

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Delaware Advancement Corporation (DAC) was incorporated as a not-for-profit organization in August 1984, under the laws of the State of Indiana. DAC is operated to encourage the investment of businesses and individuals in the city of Muncie and Delaware County, Indiana, through neighborhood assistance programs, jobs and job training, education, operation of the Convention Center, community services, and aid to economically disadvantaged individuals directly and by contribution.

The Convention Center is a division of DAC organized to renovate, equip, operate, maintain, and promote the use of the former Federal Building as a convention center under a long-term operating agreement (35 years) entered into with the Delaware County Civic Center Authority as of September 4, 1986. At the termination of the operating agreement, any surplus funds held by DAC and received as compensation under terms of the agreement shall be turned over to the Authority. The residual interest accruing to the Authority is reflected as net assets without donor restriction residual interest funds in the statement of financial position. During 2017, the operating agreement was amended to extend the termination date to December 15, 2038.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization maintains its accounting on the accrual basis, and accordingly, reflects all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). FASB *ASC 958-10-65, Presentation of Financial Statements of Not-for-Profit Entities* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories: “net assets with donor restrictions” and “net assets without donor restrictions”.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Estimates*

The preparation of 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 of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

DAC considers all bank deposits and liquid investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost as of the date of purchase or, if donated, at the approximate fair market value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Depreciation expense is computed using the straight-line method over the estimated useful lives of property and equipment of 3 to 20 years.

When assets are sold or disposed, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss on the disposition is reflected in activities. Expenditures for maintenance and repairs are expensed when incurred. Expenditures that result in the enhancement of the value of the assets involved are treated as additions to property and equipment.

Inventory

Inventories are stated at the lower of cost, on the first-in/first-out method, or market.

Support, Revenue, and Pledges

In accordance with FASB ASC 958, *Not-for-Profit Entities*, contributions received are recorded as support “with donor restrictions” and “without donor restrictions”, depending on the existence and/or nature of any donor restrictions. FASB ASC 605-205-15 *Accounting for Contributions Received and Made*, requires that “unconditional promises to give” be recorded as receivables and revenue; and requires the organization to distinguish between contributions received for each net asset category in accordance with donor restrictions.

Contributions are generally considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received as restricted by the donor for a specific purpose are reported as restricted until such time as the donor’s restriction expires. Restrictions are normally removed when the contributions are expended for the purpose restricted, or the completion of the project for which the contributions were specifically donated. When a donor-stipulated time restriction ends, or a purpose restriction is accomplished, then the net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restriction.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Support, Revenue, and Pledges (continued)*

Pledges for contributions are recorded as a receivable when the pledge is received. An allowance is provided for pledges which are determined to be uncollectible. Amounts received that are restricted by the donor for future periods or for specific purposes, are reported as support with donor restrictions.

The allowance for uncollectible pledges is maintained at a level which, in management's judgment, is adequate to absorb potential bad debts inherent with pledges receivable. The amount of the allowance is based on management's evaluation of the collectability of the pledges receivable and trends in historical bad debt experience. The allowance is increased by a provision for uncollectible pledges, which is charged to expense and reduced by charge-offs. Because of uncertainties inherent in the estimation process, management's estimate of bad debts and the related allowance may change in the near-term. However, the amount of the change that is reasonably possible cannot be estimated.

Donated Services

During the years ended September 30, 2019 and 2018, a substantial number of volunteers have contributed significant amounts of their time to the Organization. These services do not meet the requirements for recognition in the financial statements in accordance with *FASB ASC 958-605, Accounting for Contributions Received and Contributions Made* and are not included in the financial statements.

Advertising Costs

Advertising costs are expensed when incurred and are classified under the statement of functional expenses.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. The financial statements may report certain categories of expense that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among program and supporting services benefited. Certain costs for personnel and office overhead, as well as fundraising costs, have been allocated among the programs and supporting services based upon the distribution of staff time.

Income Taxes

The Organization is a not-for-profit organization incorporated under the laws of the State of Indiana and is exempt from the payment of federal income taxes under *Section 501(c)(3)* of the *Internal Revenue Code*. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of *Section 509(a)* of the *Internal Revenue Code*.

The Organization's federal and state income tax returns are subject to examination by taxing authorities, generally for three years after they were filed.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Date of Management's Review*

Management has evaluated subsequent events through the date on which the financial statements were made available to be issued. The date is the same as the independent auditor's report date.

Reclassification

Certain prior year amounts have been reclassified in the financial statements to conform to the current year presentation format.

Change in Accounting Principle

In August 2016, the FASB issued the Accounting Standards Update, *ASU No. 2016-14 Not-For-Profit Entities (Topic 958), Presentation of Financial Statements of Not-For-Profit Entities*. Under the guidance, not-for-profit entities are required to: (1) present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than the previously required three classes. That is, a Not For Profit ("NFP") will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the previously required amount for total net assets; (2) present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the previously required three classes; (3) continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method reconciliation if using the direct method; (4) provide enhanced disclosure on (a) governing board designations, appropriation, and similar actions that result in self-imposed limits on use of resources without donor-imposed restrictions as of the end of the period; (b) composition of net assets with donor restrictions at the end of the period; (c) qualitative information that communicates how the Organization manages its liquid resources to meet cash needs for general expenditures within one year of the balance sheet date; (d) qualitative information that communicates availability of the Organization's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date; (e) amount of expenses by both their natural and functional classification; (f) methods used to allocate costs among programs and support functions; (g) additional disclosures on underwater endowment funds. The reporting guidance in this ASU is effective for the Organization's year ended September 30, 2019.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable have been discounted at a rate of 1.22% to reflect the net present value of the future cash flows. Contributions receivable at September 30 are as follows:

	Temporarily Restricted	
	2019	2018
Due within one year	\$ 152,000	\$ 144,500
Due in 1 - 5 years	262,500	410,000
	<u>\$ 414,500</u>	<u>\$ 554,500</u>
Allowance for uncollectible contributions	(20,725)	(27,725)
	<u>\$ 393,775</u>	<u>\$ 526,775</u>
Discount	(9,527)	(16,078)
	<u><u>\$ 384,248</u></u>	<u><u>\$ 510,697</u></u>

Contributions receivable restricted for specific purposes are as follows:

	September 30,	
	2019	2018
Vision 2021 Program	<u><u>\$ 384,248</u></u>	<u><u>\$ 510,697</u></u>

4. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Organization established two endowment funds with the Community Foundation of Muncie and Delaware County, Inc. The Organization transferred monies from its cash to establish the funds. The Foundation has retained variance authority of all funds and therefore the beneficial interest is recorded as a perpetual donor restricted net asset. The Organization is specified as the beneficiary of future allocations based on the Foundation's spending policy. The Organization's Board has the ability to accept allocations or allow them to remain with the Foundation. These allocations that remain with the Foundation are recorded as assets without donor restrictions. Any change in the value of the beneficial interest in the funds is reported as an increase or decrease in net assets with donor restrictions

The Organization established the endowments to preserve a predictable stream of future cash flows to fund programs supported by the Organization while maintaining the purchasing power of the original investment. The Foundation's return objectives are to maximize total return, net of inflation, spending and expenses, with prudent risk levels.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

4. **BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION** (continued)

Assets held by Community Foundation as of September 30, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Beneficial interest in assets held by Community Foundation	<u>\$ 13,337</u>	<u>\$ 12,746</u>

Changes in endowment net assets with donor restrictions for the year ended September 30, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 12,746	\$ 11,701
Change in value of beneficial interest in endowments	<u>591</u>	<u>1,045</u>
Donor designated net assets, end of year	<u>\$ 13,337</u>	<u>\$ 12,746</u>

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy under FASB *ASC 820* are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The beneficial interest in assets held by the Community Foundation is based on inputs other than quoted prices in active markets provided by the Foundation.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Beneficial interest in endowments	\$ 13,337	\$ -0-	\$ 13,337	\$ -0-
September 30, 2018				
Beneficial interest in endowments	\$ 12,746	\$ -0-	\$ 12,746	\$ -0-

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

6. PROPERTY AND EQUIPMENT

DAC's property and equipment are as follows at September 30:

	<u>2019</u>	<u>2018</u>
Furnishings, fixtures, and equipment	\$ 2,102,029	\$ 1,867,237
Leasehold improvements	2,821,762	2,536,286
Construction in progress	189,947	30,625
	<u>\$ 5,113,738</u>	<u>\$ 4,434,148</u>
Accumulated depreciation	<u>(3,238,922)</u>	<u>(2,978,597)</u>
	<u>\$ 1,874,816</u>	<u>\$ 1,455,551</u>

Depreciation expense was \$261,625 and \$252,352 for 2019 and 2018, respectively.

7. INVESTMENT PROPERTY

During 2013, DAC began construction of a parking structure that is being financed by the City of Muncie. As of September 30, 2019, costs of \$5,000,157 had been incurred. On September 10, 2013, DAC entered into a capital lease with the City of Muncie Redevelopment Commission to lease the parking structure for a period of twenty-two years beginning January 15, 2016.

The following lists the components of the net investment in the direct financing lease as of September 30, 2019:

Total minimum lease payments to be received	\$ 8,884,810
Less unearned interest income	<u>(3,884,810)</u>
Net investment in direct financing lease	<u>\$ 5,000,000</u>

At September 30, 2019, minimum lease payments for each of the next five succeeding years are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 260,000
2021	260,000
2022	260,000
2023	260,000
2024	260,000

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

7. INVESTMENT PROPERTY (continued)

During 2015, DAC completed construction of a shell building located in the Industria Centre. As of September 30, 2019, costs associated with the land and building amounted to \$7,480,565. Financing was provided by Garmong Development Company, LLC. DAC entered into a promissory note to repay the obligation. At the same time, DAC entered into an operating lease with the Delaware County Redevelopment Commission for up to ten years. The lease proceeds will be used to pay the interest due on the note.

Properties were purchased during 2018 for riverfront development. As of September 30, 2018, costs associated with the purchase were \$1,624,794. Financing was provided by Garmong Development Company, LLC. DAC entered into a promissory note to repay the obligation. Funding for the note repayment will be provided by the Muncie Redevelopment Commission.

During 2019, DAC acquired an interest in a daycare facility in foreclosure for \$150,000 to assist in the transition of the property to a permanent owner. Funds for the transaction were provided by the Muncie Redevelopment Commission (MRC). Once acquired, DAC will sell the property to the new owner and repay MRC.

8. NOTE RECEIVABLE

A non interest-bearing note receivable due from Garmong Development Company, LLC, secured by a mortgage on real estate, is to be repaid by annual payments of \$55,838, commencing on December 31, 2011. The principal balance as of September 30, 2019 and 2018, was \$69,797 and \$125,634, respectively.

9. NOTES PAYABLE

During the year ended September 30, 2008, land was purchased for the construction of a shell building. The land was purchased with funds provided by the Delaware County Commissioners. In October 2010, the building was sold to Garmong Development Company, LLC. Proceeds collected under a note receivable with the buyer are to be forwarded to the Commissioners. The principal balance at September 30, 2019 and 2018, was \$69,797 and \$125,635, respectively.

Land was purchased from the Muncie Redevelopment Commission for the construction of a shell building. The land was purchased with funds provided by the Commission. Proceeds from the sale of the property are to be forwarded to them. In August 2015, a portion of the property was transferred as part of a sale transaction. The principal balance at September 30, 2019 and 2018, was \$78,534.

On September 10, 2013, DAC entered into an agreement with the City of Muncie, the Muncie Redevelopment Commission, and Cardinal Square to construct a parking garage in the Village. The project was financed by bonds issued by the City of Muncie. Proceeds were loaned to DAC to pay construction costs. A note between DAC and the City of Muncie calls for payment of \$5,000,000 principal plus interest by February 1, 2038, in sums equal to the semi-annual payments due on the Series 2013 bonds. The City of Muncie assigned its rights in the note and requested that DAC make the payments directly to the bond trustee. Variable interest on the note is linked to the prime rate. As of September 30, 2019, the interest rate was 5.00%. The principal balance at September 30, 2019 and 2018, was \$4,644,528 and \$4,705,276, respectively.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

9. **NOTES PAYABLE** (continued)

During 2015, DAC completed construction of a shell building located in the Industria Centre. DAC entered into a promissory note with Garmong Development Company, LLC to finance the project. The note calls for semi-annual interest payments on the first day of January and July with the principal due the earlier of the closing of the sale of the building, the execution of a long-term lease, or ten years. The note bears interest at the prime rate published in the Wall Street Journal plus .50% and is adjusted each January 1 and July 1. As of September 30, 2019, the interest rate was 5.50%. The principal balance at September 30, 2019 and 2018, was \$6,880,565. The land used for the project was transferred from Delaware County to DAC at a value of \$600,000. This amount is owing to the County.

During 2018, DAC purchased properties for riverfront development. DAC entered into a promissory note with Garmong Development Company, LLC to finance the project. The note calls for semi-annual interest payments on the first day of January and July with the principal due the earlier of three years from January 31, 2018, or the date the entire parcel of land has been sold to an unrelated third party in an arm's length transaction. The note bears interest at the prime rate published in the Wall Street Journal plus .50% and is adjusted each January 1 and July 1. As of September 30, 2019, the interest rate was 5.50%. The principal balance at September 30, 2019 and 2018, was \$1,624,794.

During 2019, DAC acquired an interest in a daycare facility in foreclosure to assist in the transition of the property to a permanent owner. DAC entered into a term note with Muncie Redevelopment Commission to finance the project. Principal and interest are due within ten days of receiving payment from the third-party purchaser. No interest is due if the outstanding principal balance is paid in full within 120 days of being advanced. After that date, the note bears interest at 5.00%. The principal balance at September 30, 2019, was \$150,000.

Future principal payments required on debt outstanding at September 30, 2019, consisted of the following:

For the Year Ended September 30,	Amount
2020	\$ 271,177
2021	1,707,180
2022	72,594
2023	77,015
2024	82,645
2025 and thereafter	11,159,073
	\$ 13,369,684
Loans for which there are no required repayment schedules	678,534
	\$ 14,048,218

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

10. NET ASSETS WITH DONOR RESTRICTIONS

As of September 30, 2019 and 2018, donor restricted net assets consist of:

	<u>2019</u>	<u>2018</u>
Vision 2021 Program	\$ 384,248	\$ 510,697
Community Foundation endowment	13,337	12,746
Grants	<u>501</u>	<u></u>
	<u>\$ 398,086</u>	<u>\$ 523,443</u>

During the years ended September 30, 2019 and 2018, donor restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Vision 2021 Program	\$ 285,500	\$ 285,376
Grants	<u>4,500</u>	<u></u>
	<u>\$ 290,000</u>	<u>\$ 285,376</u>

11. EMPLOYEE BENEFITS

DAC maintains a defined contribution pension plan for the benefit of substantially all of its employees. DAC's contribution consists of a discretionary contribution up to 6% of eligible compensation. Employees may contribute up to the IRS established limits. DAC's total contribution to the plan was \$69,124 and \$81,979 for 2019 and 2018, respectively.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

13. OPERATING LEASES

DAC leases its operating facilities and the Convention Center under a non-cancellable operating lease arrangement. This lease expired December 1, 2018. During 2017, the operating agreement was amended to extend the termination date to December 15, 2038. Under the agreement, DAC is responsible for all expenses associated with operating the Convention Center and will continue to receive a portion of the 1% Delaware County Food and Beverage Tax from the State of Indiana to fund the operations. The agreement also allows DAC to sublease the facility.

DAC subleases part of the Convention Center facility. The current month-to-month agreement calls for monthly payments of \$200.

The Organization leases a copier under a sixty-three-month, non-cancellable lease at a cost per month of \$319. The lease expires in September 2023. The copier is also being subleased to a related organization.

The above rental expense is offset by sublease rental income. The fee for the subleasing was based upon usage and, therefore, varied from month to month.

During 2015, DAC completed construction of a shell building located in the Industria Centre. The property is being leased to the Delaware County Redevelopment Commission. The term of the lease is for the earlier of ten years or the date the building is sold or is leased to a party for a term of at least ten years. Future minimum lease receipts are as follows:

Year Ending September 30,	Amount
2020	\$ 258,021
2021	258,021
2022	258,021
2023	258,021
2024	258,021

Rent in the amount of \$411,886 and \$356,524 was received for the years ended September 30, 2019 and 2018.

14. CONCENTRATION OF CREDIT RISKS

The Organization maintains cash balances in federally insured financial institutions. The balances are insured up to \$250,000 at each financial institution by the Federal Deposit Insurance Corporation. As of September 30, 2019, cash in bank accounts in excess of insured amounts was approximately \$317,000.

DELAWARE ADVANCEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

15. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2019 and 2018, are comprised as follows:

	<u>2019</u>	<u>2018</u>
Operating Financial Assets:		
Cash and cash equivalents (without donor restriction)	\$ 1,315,807	\$ 1,633,099
Accounts receivable	126,158	105,029
	<u>\$ 1,441,965</u>	<u>\$ 1,738,128</u>
Reconciliation of Net Assets Without Donor Restrictions to Financial Assets Available to Meet Cash Needs:		
Net assets without donor restrictions	\$ 4,364,468	\$ 4,158,961
Less:		
Inventory	(23,959)	(23,464)
Note receivable	(69,797)	(125,634)
Real estate held for resale	(978,534)	(978,534)
Investment property	(14,255,516)	(14,105,516)
Prepaid expense	(36,442)	(26,223)
Property and equipment, net	(1,874,816)	(1,455,551)
Add:		
Accounts payable	16,100	57,580
Accrued expenses	101,434	112,092
Deposits	150,809	109,613
Notes payable	14,048,218	14,014,804
	<u>\$ 1,441,965</u>	<u>\$ 1,738,128</u>

The Organization's annual operating cash needs are determined during their budgeting process. Cash is regularly monitored and evaluated by management. General expenditures include administration, fundraising, and program services that are expected to be paid in a subsequent year.