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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

August 27, 2020

Board of Directors
OrthoWorx, Inc.
102 South Buffalo St.
Warsaw, IN 46580

We have reviewed the audit report of OrthoWorx, Inc., which was opined upon by Estep Burkey Simmons, LLC, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of OrthoWorx, Inc. as of June 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, Estep Burkey Simmons, 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

OrthoWorx, Inc.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2019 and 2018



Independent Auditors' Report

Board of Directors
OrthoWorx, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of OrthoWorx, Inc. which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OrthoWorx, Inc. as of June 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.

Estep Burkey Simmons, LLC

Muncie, Indiana
October 17, 2019

OrthoWorx, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 820,831	\$ 1,424,733
Accounts receivable	5,564	5,678
Prepaid expenses	<u>9,120</u>	<u>13,531</u>
Total current assets	835,515	1,443,942
FURNITURE AND EQUIPMENT, net of depreciation expense	20,333	28,839
INVESTMENT IN ACCELINX	<u>614,317</u>	<u>547,270</u>
	<u>\$ 1,470,165</u>	<u>\$ 2,020,051</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 15,672	\$ 12,408
Accrued wages and payroll taxes	<u>9,913</u>	<u>8,597</u>
Total current liabilities	<u>25,585</u>	<u>21,005</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>1,444,580</u>	<u>1,999,046</u>
	<u>\$ 1,470,165</u>	<u>\$ 2,020,051</u>

The accompanying notes are an integral part of these statements.

OrthoWorx, Inc.

STATEMENTS OF ACTIVITIES

Years Ended June 30,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenue:			
Membership dues			
Operating support	\$ 56,870		\$ 56,870
AcceLINX funding		\$ 533,000	533,000
Gifts-in-kind	28,875		28,875
Investment loss	(436,703)		(436,703)
Gain on disposal of equipment			
Miscellaneous	6,779		6,779
Total operating support and revenue	(344,179)	533,000	188,821
Net assets released from restriction:			
Satisfaction of purpose restrictions	533,000	(533,000)	
Operating expenses:			
Program services	413,550		413,550
Management and general	311,814		311,814
Fundraising	17,923		17,923
Total operating expenses	743,287		743,287
INCREASE (DECREASE) IN NET ASSETS	(554,466)		(554,466)
Net assets at beginning of year	1,999,046		1,999,046
Net assets at end of year	\$ 1,444,580	\$ -	\$ 1,444,580

The accompanying notes are an integral part of these statements.

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 383,000		\$ 383,000
243,616		243,616
	\$ 533,000	533,000
49,500		49,500
(465,294)		(465,294)
750		750
5,140		5,140
<hr/>	<hr/>	<hr/>
216,712	533,000	749,712
533,000	(533,000)	
351,606		351,606
281,623		281,623
2,399		2,399
<hr/>	<hr/>	<hr/>
635,628		635,628
114,084		114,084
<hr/>	<hr/>	<hr/>
1,884,962		1,884,962
<hr/>	<hr/>	<hr/>
\$ 1,999,046	\$ -	\$ 1,999,046
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

OrthoWorx, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30,

	2019			
	Orthopedic Catalyst	Management & General	Fundraising	Total
Salaries and wages	\$ 190,140	\$ 164,544	\$ 10,970	\$ 365,654
Payroll taxes	11,958	10,348	690	22,996
Employee benefits	35,435	30,665	2,044	68,144
Occupancy	35,403	30,637	2,042	68,082
Insurance	2,265	1,959	131	4,355
Professional fees		23,627		23,627
Telephone	2,023	1,751	117	3,891
Postage	53	46	3	102
Consultants	18,378	15,904	1,060	35,342
Information technology	4,118	3,564	238	7,920
Conferences and meetings	200	172	12	384
Travel	498	431	29	958
Office supplies	1,600	1,385	92	3,077
Website	706	611	41	1,358
Dues and subscriptions		19,361		19,361
Community programming	102,907			102,907
Public relations	1,691	1,463	98	3,252
Advertising	596	517	34	1,147
Depreciation	5,506	4,765	318	10,589
Miscellaneous	73	64	4	141
Total expenses	<u>\$ 413,550</u>	<u>\$ 311,814</u>	<u>\$ 17,923</u>	<u>\$ 743,287</u>

The accompanying notes are an integral part of these statements.

2018

2018			
Orthopedic Catalyst	Management & General	Fundraising	Total
\$ 184,917	\$ 157,367	\$ 1,737	\$ 344,021
11,809	10,865	97	22,771
33,209	32,273	362	65,844
35,581	27,440	118	63,139
3,100	2,470	15	5,585
	20,184		20,184
2,106	1,679	10	3,795
71	57		128
1,600	540		2,140
4,149	3,307	19	7,475
264	66		330
263	209	1	473
2,250	1,793	10	4,053
544	136		680
	16,862		16,862
61,841			61,841
2,603	651		3,254
679	170		849
6,540	5,212	30	11,782
80	342		422
<u>\$ 351,606</u>	<u>\$ 281,623</u>	<u>\$ 2,399</u>	<u>\$ 635,628</u>

OrthoWorx, Inc.

STATEMENTS OF CASH FLOWS

Years Ended June 30,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (554,466)	\$ 114,084
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	10,589	11,782
Gain on disposal of equipment		(750)
Unrealized losses on investment	465,953	491,519
(Increase) decrease in assets:		
Accounts receivable	114	93,330
Prepaid expenses	4,411	(4,741)
Increase (decrease) in liabilities:		
Accounts payable	3,264	11,914
Accrued expenses	1,316	(23,458)
Net cash provided by (used in) operating activities	<u>(68,819)</u>	<u>693,680</u>
Cash flows from investing activities:		
Purchase of equipment	(2,083)	
Proceeds from sale of equipment		750
Purchases of investment	<u>(533,000)</u>	<u>(533,000)</u>
Net cash used in investing activities	<u>(535,083)</u>	<u>(532,250)</u>
Net increase (decrease) in cash	(603,902)	161,430
Cash at beginning of year	<u>1,424,733</u>	<u>1,263,303</u>
Cash at end of year	<u>\$ 820,831</u>	<u>\$ 1,424,733</u>
<u>Supplemental Disclosures</u>		
Gifts-in-kind	\$ 28,875	\$ 49,500

The accompanying notes are an integral part of these statements.

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

OrthoWorx, Inc. (OrthoWorx) is a not-for-profit corporation established in 2010 and organized under the laws of the State of Indiana. OrthoWorx's primary mission is ensuring The Orthopedic Capital of the World® remains right here in the Warsaw area.

2. Basis of Accounting

The financial statements of OrthoWorx have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

3. Financial Statement Presentation

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

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

4. Income Taxes

OrthoWorx is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code and similar provisions of the Indiana Code.

5. Contributed Materials and Services

During the years ended June 30, 2019 and 2018, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist OrthoWorx, but these services do not meet the criteria for recognition as contributed services.

6. Accounts Receivable

OrthoWorx considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

7. Advertising Costs

Advertising costs are expensed as incurred and included in operating expenses. Advertising expenses totaled \$1,147 and \$849 for the years ended June 30, 2019 and 2018, respectively.

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Furniture and Equipment

Purchased furniture and equipment is stated at cost. Donated furniture and equipment is recorded as support at the estimated fair value at the date of gift. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed according to the estimated useful lives of the respective assets using the straight-line method.

9. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, OrthoWorx considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

10. Revenue Recognition

Contributions received are recorded as with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires that is, when a stipulated time or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

11. Membership Dues

Organizations that invest in a membership with OrthoWorx may have representation on the board of directors or advisory board. Total membership investments for the years ended June 30, 2019 and 2018 were \$0- and \$383,000, respectively.

12. Uncertain Tax Positions

OrthoWorx recognizes a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. OrthoWorx has examined this issue and has determined there are no material contingent tax liabilities.

OrthoWorx's federal and state exempt organization tax returns for 2015, 2016, and 2017 are subject to examination by the Internal Revenue Service and the Indiana Department of Revenue. Returns are generally subject to examination for three years after they are filed.

13. Concentration of Credit Risk

OrthoWorx maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed the federally insured limit of \$250,000. At June 30, 2019 and 2018, OrthoWorx exceeded the insured limit by \$581,011 and \$1,174,750, respectively.

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

14. Compensated Absences

Employees of OrthoWorx are entitled to paid time off, which can be used for vacation, sick or personal or time, based on length of service. The policy allows for the employee to carry over up to five vacation days into the next calendar year. All other vacation days must be used in the calendar year in which they were received. OrthoWorx's policy is to recognize the cost of compensated absences when actually paid to employees.

15. Functional Allocation of Expenses

The program activity of OrthoWorx consists of grant making to local not-for-profit organizations. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of OrthoWorx. Those expenses include depreciation, repairs and maintenance, insurance, utilities, telephone, legal and accounting, office supplies, dues and subscriptions, advertising, postage, printing and publications, payroll, payroll taxes, and benefits. These expense are allocated on the basis of estimates of time and effort.

16. Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INVESTMENT IN ACCELINX

AcceLINX, Inc. (AcceLINX) was incorporated in November 2016. OrthoWorx is the sole stockholder of AcceLINX. AcceLINX is a musculoskeletal health business accelerator that provides an unmatched level of industry-specific support to select inventors and entrepreneurs looking to enhance their prospects for business success. AcceLINX, Inc. was formed with the expectation of making profits and being able to provide a return on OrthoWorx's investment. The Board of Directors approved the investment of \$1,368,000 into AcceLINX, Inc. as capital.

OrthoWorx uses the equity method to account for its financial interests in AcceLINX. The fair value of the investment at June 30, 2019 and 2018 was \$614,317 and \$547,270, respectively. Summarized financial information for AcceLINX consists of the following for the years ending June 30, 2019 and 2018:

	2019	2018
Total assets	\$ 670,032	\$ 590,915
Total liabilities	\$ 55,715	\$ 43,645
Stockholder's equity	\$ 614,317	\$ 547,270
Income	\$ 132,677	\$ 20,776
Expenses	\$ 598,630	\$ 512,295

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable consist of expenses that have been submitted for reimbursement but have not been received and membership dues that have been invoiced but not paid. Accounts receivable at June 30, 2019 and 2018 were \$5,564 and \$5,678, respectively.

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE D - FURNITURE AND EQUIPMENT

The amounts of furniture and equipment, net of depreciation, at June 30, 2019 and 2018 consist of the following.

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 137,069	\$ 134,986
Less: accumulated depreciation	<u>(116,736)</u>	<u>(106,147)</u>
	<u>\$ 20,333</u>	<u>\$ 28,839</u>

NOTE E - OPERATING LEASE

Beginning in January 2014, OrthoWorx entered into a lease for commercial office space under a three and a half year lease agreement ending January 31, 2019. Monthly lease payments are \$0- per month. This amount is substantially lower than fair value. The value of the donated facility for the years ended June 30, 2019 and 2018 is approximately \$28,875 and \$49,500, respectively, and has been recorded as both revenue and expense in the financial statements. Beginning in February 1, 2019, OrthoWorx entered into a lease for commercial office space under a one-year lease agreement. Monthly lease payments are \$4,500 per month. Total lease expense for the years ended June 30, 2019 and 2018 was \$55,875 and \$49,500, respectively.

NOTE F - NET ASSETS RELEASED FROM DONOR RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of AcceLINX funding of \$533,000 and \$533,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE G - LIQUIDITY

OrthoWorx has financial assets available within one years of the Statements of Financial Position date consisting the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 820,831	\$ 1,424,733
Accounts receivable	<u>5,564</u>	<u>5,678</u>
	<u>\$ 826,395</u>	<u>\$ 1,430,411</u>

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one years of the Statements of Financial Position date. As part of its liquidity management, OrthoWorx invests cash in excess of daily requirements in various cash equivalents including money market funds and other interest earning opportunities.

NOTE H - GOVERNMENT GRANTS

OrthoWorx received \$533,000 during each years ending June 30, 2019 and 2018 in grants from the Indiana Economic Development Corporation, the City of Fort Wayne, the City of Warsaw, Allen County, Indiana, and Kosciusko County, Indiana to support the establishment of AcceLINX.

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE I - FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A hierarchy of inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of OrthoWorx. Unobservable inputs are inputs that reflect the OrthoWorx's assumptions about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that OrthoWorx has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth financial assets measured at fair value in the Statements of Financial Position and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2019 and 2018:

	2019			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in AcceLINX	\$ 614,317			\$ 614,317
	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investment in AcceLINX	\$ 547,270			\$ 547,270

OrthoWorx, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE I - FAIR VALUE MEASUREMENTS - Continued

The following schedule provides further detail of the investment in AcceLINX being held as a Level 3 fair value measurement using significant unobservable inputs at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 547,270	\$ 505,789
Purchase of investment	533,000	533,000
Net depreciation of investment	<u>(465,953)</u>	<u>(491,519)</u>
Ending balance	<u>\$ 614,317</u>	<u>\$ 547,270</u>

Fair value of the level 3 investment in AcceLINX is based on monthly financial statements provided by the corporation.

NOTE J - SUBSEQUENT EVENTS

OrthoWorx has evaluated subsequent events through October 17, 2019, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2019, have been incorporated into these financial statements herein.

NOTE K - CHANGE IN ACCOUNTING PRINCIPLE

During 2019, OrthoWorx adopted FASB ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been implemented and adjustments have been made to the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and caused no changes in the classification of net assets.