
Edison Welding Institute, Inc.

Consolidated Financial Report
June 30, 2019

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Independent Auditor's Report

To the Board of Directors
Edison Welding Institute, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Edison Welding Institute, Inc. (EWI), which comprise the consolidated statement of financial position as of June 30, 2019 and 2018 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Edison Welding Institute, 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.

Emphasis of Matter

As described in Note 3 to the consolidated financial statements, EWI adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019 and applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

To the Board of Directors
Edison Welding Institute, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2020 on our consideration of Edison Welding Institute, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Edison Welding Institute, Inc.'s internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 8, 2020

Edison Welding Institute, Inc.**Consolidated Statement of Financial Position****June 30, 2019 and 2018**

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,416,728	\$ 5,950,155
Accounts receivable:		
Billed - Net	3,208,301	2,592,774
Employees	15,880	16,139
Unbilled contracts in process	2,453,060	3,133,338
Prepaid expenses and other current assets	682,275	528,945
Total current assets	12,776,244	12,221,351
Other Assets - Deferred tax asset (Note 14)	274,000	352,000
Property and Equipment - Net (Note 4)	11,349,335	12,306,667
Intangible Assets - Net (Note 6)	1,018,770	1,022,323
Total noncurrent assets	12,642,105	13,680,990
Total assets	\$ 25,418,349	\$ 25,902,341
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,684,089	\$ 2,835,919
Accrued compensation	1,155,710	1,103,789
Unearned revenue	6,627,301	5,485,209
Current portion of capital lease payable (Note 9)	117,736	111,401
Current portion of long-term debt (Note 7)	-	91,067
Total current liabilities	9,584,836	9,627,385
Long-term Debt - Net of current portion (Note 7)	-	98,656
Capital Lease Payable - Net of current portion (Note 9)	357,293	475,029
Interest Rate Swap (Note 7)	-	1,947
Other Liabilities	127,600	154,754
Unearned Revenue	1,337,475	1,411,779
Total liabilities	11,407,204	11,769,550
Net Assets		
Without donor restrictions	14,011,145	13,600,335
With donor restrictions	-	532,456
Total net assets	14,011,145	14,132,791
Total liabilities and net assets	\$ 25,418,349	\$ 25,902,341

Edison Welding Institute, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Research and education activities	\$ 30,155,497	\$ -	\$ 30,155,497	\$ 23,446,063	\$ 960,554	\$ 24,406,617
Membership revenue	1,724,910	-	1,724,910	1,989,787	-	1,989,787
Lease revenue	268,914	-	268,914	285,765	-	285,765
Other revenue	699,256	-	699,256	500,799	-	500,799
Net assets released from restrictions	532,456	(532,456)	-	2,435,886	(2,435,886)	-
Total revenue, gains, and other support	33,381,033	(532,456)	32,848,577	28,658,300	(1,475,332)	27,182,968
Expenses						
Program expenses - Cost of research and education activities	29,437,775	-	29,437,775	26,190,635	-	26,190,635
General and administrative	3,429,202	-	3,429,202	3,119,803	-	3,119,803
Unallocated expenses:						
Interest expense	47,270	-	47,270	37,877	-	37,877
Loss on joint venture	-	-	-	25,390	-	25,390
Change in fair value - Interest rate swap	(1,947)	-	(1,947)	377	-	377
Total unallocated expenses	45,323	-	45,323	63,644	-	63,644
Total expenses	32,912,300	-	32,912,300	29,374,082	-	29,374,082
Change in Net Assets - Before other items	468,733	(532,456)	(63,723)	(715,782)	(1,475,332)	(2,191,114)
Other Items - Income tax expense	(57,923)	-	(57,923)	(272,000)	-	(272,000)
Change in Net Assets	410,810	(532,456)	(121,646)	(987,782)	(1,475,332)	(2,463,114)
Net Assets - Beginning of year	13,600,335	532,456	14,132,791	14,588,117	2,007,788	16,595,905
Net Assets - End of year	\$ 14,011,145	\$ -	\$ 14,011,145	\$ 13,600,335	\$ 532,456	\$ 14,132,791

Consolidated Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (121,646)	\$ (2,463,114)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	1,892,420	1,729,943
(Gain) loss on disposal of assets	(17,250)	3,644
Bad debt expense	101,301	-
Impairment of intangible assets	175,201	22,723
Change in interest rate swap fair value	(1,947)	377
Deferred income taxes	78,000	272,000
Grantor-restricted support for long-term purposes	-	(960,554)
Changes in assets and liabilities:		
Accounts receivable	(36,291)	404,733
Prepaid expenses and other assets	(153,330)	23,656
Accounts payable	(1,180,133)	115,929
Unearned revenue	1,067,788	4,188,020
Accrued compensation	51,921	188,518
Other liabilities	(27,155)	(27,284)
Net cash and cash equivalents provided by operating activities	1,828,879	3,498,591
Cash Flows from Investing Activities		
Purchase of property and equipment	(789,991)	(2,161,284)
Proceeds from disposition of property and equipment	17,250	-
Purchases of intangible assets	(288,441)	(203,762)
Net cash and cash equivalents used in investing activities	(1,061,182)	(2,365,046)
Cash Flows from Financing Activities		
Payments on long-term debt	(189,723)	(91,067)
Grantor-restricted support for long-term purposes	-	960,554
Payments on capital lease payable	(111,401)	(194,597)
Net cash and cash equivalents (used in) provided by financing activities	(301,124)	674,890
Net Increase in Cash and Cash Equivalents	466,573	1,808,435
Cash and Cash Equivalents - Beginning of year	5,950,155	4,141,720
Cash and Cash Equivalents - End of year	\$ 6,416,728	\$ 5,950,155
Supplemental Cash Flow Information - Cash paid for interest	\$ 47,270	\$ 37,877
Significant Noncash Transactions		
Acquisition of property and equipment included in accounts payable	\$ 28,303	\$ 857,506
Property and equipment acquired with capital leases	-	670,239

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 1 - Nature of Business

Edison Welding Institute, Inc. (EWI) is a tax-exempt entity located in Columbus, Ohio engaged in conducting scientific research and promoting educational activities in the fields of materials joining and allied technologies. EWI encourages the interaction of business, government, educational institutions, and research organizations to stimulate development, implementation, and transfer of advancements in the fields of materials joining and allied technologies. The Ohio State University (OSU), Battelle Memorial Institute, and The Welding Institute are the three founding members; however, the founding members are not active in the governance of EWI.

EWI owns the majority of the membership interest of its for-profit subsidiary, Fabrisonic, LLC (Fabrisonic), which is engaged in the development of technology and equipment for ultrasonic additive manufacturing of components, tooling, advanced alloys, and other products. EWI has a 60 percent membership interest in Fabrisonic. For the years ended June 30, 2019 and 2018, Fabrisonic had revenue and other support of approximately \$1,350,000 and \$1,054,000, respectively.

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of EWI and its majority-owned subsidiary, Fabrisonic. All material intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interests

Noncontrolling interests represent the portion of the net assets in subsidiaries not attributable, directly or indirectly, to EWI. The change in net assets derived from the performance of the subsidiaries that is not attributable, directly or indirectly, to EWI is allocated to noncontrolling interests in the consolidated statement of activities and changes in net assets.

The operating agreement for Fabrisonic stipulates that losses are to be allocated to members having positive capital account balances. The member with noncontrolling interest in Fabrisonic has a \$0 capital account balance, and, as such, losses have not been allocated to the member. As of June 30, 2019 and 2018, there was no balance in noncontrolling interest related to Fabrisonic.

Classification of Net Assets

Net assets of EWI are classified based on the presence or absence of grantor-imposed or donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of EWI.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of EWI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2018, net assets with donor restrictions consisted of grants received from the State of Colorado; City of Loveland, Colorado; and the Colorado Advanced Manufacturing Alliance, Inc., as described in Note 5. As of June 30, 2019, there were no net assets with donor restrictions.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Note 2 - Significant Accounting Policies (Continued)

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 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

EWI considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. EWI maintains its cash in demand deposit accounts. The balances, at times, may exceed federally insured limits. EWI continuously monitors its balances to minimize the risk of loss.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Unbilled receivables represent earned project revenue for which the projects have not yet met the contract billing requirements. EWI grants credit on open accounts to its customers and generally requires payment within 30 days from delivery or at specific milestone dates, as prescribed under the terms of its contract. EWI records an allowance for doubtful accounts for potentially uncollectible accounts. EWI estimates the allowance based on its analysis of funding appropriations versus performance under contract, customers' payment history, and other known factors concerning their current financial condition and ability to pay. The allowance for doubtful accounts was approximately \$170,000 and \$81,000 as of June 30, 2019 and 2018, respectively. After EWI has exhausted its collection efforts and determined that amounts are uncollectible at the individual invoice level, such amounts are charged against the allowance. Recoveries of accounts receivable previously written off are recorded when received.

Property and Equipment

Property and equipment are recorded at cost. Property and equipment under capital leases are stated at the present value of minimum lease payments. Repairs and maintenance are charged to operations when incurred and additions and improvements greater than \$1,000 are capitalized.

Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings is 39 years, while office furniture and equipment, machinery and equipment, and vehicles are 5 to 7 years. Property and equipment held under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Intangible Assets

Intangible assets consist of various joining technology patents and licenses and are being amortized using the straight-line method over the life of the associated asset. Costs associated with obtaining a patent are capitalized when it becomes evident that the patent will be approved.

Impairment of Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. During 2019 and 2018, an impairment test was performed on the carrying value of EWI's intangible assets. This resulted in a write-down of these assets of \$175,201 and \$22,723 for 2019 and 2018, respectively. The fair value was based on estimated future cash flows to be generated by the assets, discounted at a market rate of interest.

Revenue Recognition

EWI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others of which are fixed-price or time and materials type contracts. EWI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract price is considered probable.

Revenue on cost-plus contracts is recognized as costs are incurred and includes a proportionate share of the fees earned. Under time and materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time and materials contracts is recognized at contractually billable rates as labor hours and direct expenses are incurred. The percentage of completion method is used to recognize revenue on fixed-price contracts based on various performance measures.

From time to time, facts develop that require EWI to revise its estimated total costs or revenue expectations. The cumulative effect of revised estimates on revenue recognized under the percentage of completion method is recorded in the period in which the facts requiring revisions become known. The full amounts of anticipated losses on any type of contract are recognized in the period in which they become known.

Contracts with agencies of the federal government are subject to periodic funding by the contracting agency concerned. Funding for a contract may be provided in full at inception of the contract or throughout the term of the contract as services are provided. If funding is not assessed as probable, revenue recognition is deferred until realization is probable. Funding provided in full at the beginning of the contract is recorded as unearned revenue until revenue is earned.

EWI recognizes revenue on unpriced change orders as expenses are incurred only to the extent EWI expects it is probable that such costs will be recovered. EWI recognizes revenue in excess of the costs on unpriced change orders only when management can also reliably estimate the amount of the excess and experience provides a sufficient basis for recognition. EWI recognizes revenue on claims as expenses are incurred only to the extent EWI expects it is probable such costs will be recovered and it can reliably estimate the amount of recovery.

Contract costs on U.S. government contracts, including indirect costs, are subject to audit by the federal government and adjustment pursuant to negotiations between EWI and government representatives. Contract revenue on U.S. government contracts has been recorded in amounts that are expected to be realized upon final settlement.

Membership income is recognized using the straight-line method over the term of the individual membership period. Unrecognized membership income received, but not yet earned, is included in unearned revenue.

Grants are recognized based on the terms of the agreement. Grants that are determined to be exchange transactions are recognized over the term of the agreement. Grants determined to be contributions, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Grantor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions without grantor-imposed restrictions and contributions with grantor-imposed time or purpose restrictions that are met in the same period as the grant are both reported as unrestricted support. Other restricted grants are reported as restricted support and donor-restricted net assets.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Lease Income

EWI leases approximately 27 percent of its operating facility to OSU under an operating lease agreement that expires in March 2020. Monthly rent expense varies on a monthly basis based on a percentage of EWI's debt service and building operating costs.

Income Taxes

EWI is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). However, EWI is taxed on income that is not considered related to its exempt purpose and on the income of its for-profit subsidiaries. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by EWI and recognize a tax liability if EWI has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by EWI and has concluded that, as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. EWI is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting. As of June 30, 2019 and 2018, EWI has a deferred tax asset of \$274,000 associated with these differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Concentrations of Credit Risk

Financial instruments, which potentially subject EWI to a concentration of credit risk, principally consist of accounts receivable. EWI grants credit to its customers, which are varied in terms of size, geographic location, and financial strength. Customer balances are continually monitored to minimize the risk of loss. For the year ended June 30, 2019, two customers accounted for approximately 23 percent of total revenue from research and education activities, and three customers accounted for approximately 29 percent of the accounts receivable balance at June 30, 2019. For the year ended June 30, 2018, one customer accounted for approximately 18 percent of total revenue from research and education activities, and two customers accounted for approximately 16 percent of the accounts receivable balance at June 30, 2018.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in Note 16. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Categories of expenses that are attributable to more than one program or supporting function are allocated based on full-time equivalencies by department. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for EWI's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. EWI plans to apply the standard using the modified retrospective method. EWI is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for EWI's year ending June 30, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. EWI is still evaluating which method it will apply. The new lease standard is expected to have an effect on EWI's financial statements as a result of EWI's operating leases, as disclosed in Note 10, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, EWI will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for EWI's year ending June 30, 2020 and will be applied on a modified prospective basis. EWI does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts.

Subsequent Events

EWI has evaluated subsequent events for potential recognition and/or disclosure through January 8, 2020, the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 3 - Adoption of New Accounting Pronouncement

As of June 30, 2019, EWI adopted ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by EWI, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated as follows: management and general expenses have increased \$529,073 from the amount previously reported, with a corresponding decrease in program expenses. Additionally, net assets of \$532,456 previously reported as temporarily restricted net assets have been reclassified to net assets with donor restrictions. As of July 1, 2017, net assets of \$2,007,788 previously reported as temporarily restricted net assets were reclassified to net assets with donor restrictions.

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Buildings	\$ 11,145,554	\$ 11,138,554
Building improvements	1,338,593	1,315,785
Machinery and equipment	15,083,522	12,880,882
Vehicles	13,550	13,550
Office furniture and equipment	3,833,118	3,762,584
Equipment not yet placed in service	285,394	1,859,460
Total cost	31,699,731	30,970,815
Accumulated depreciation	20,350,396	18,664,148
Net property and equipment	\$ 11,349,335	\$ 12,306,667

Depreciation expense for 2019 and 2018 was \$1,775,627 and \$1,627,409, respectively.

The building is located on land owned by OSU, which is leased by EWI for \$1 per year under an agreement that expires on March 31, 2020, with renewal options for three additional five-year periods.

Note 5 - Property and Equipment Funded by Grants

EWI has received certain grant agreements that include funding for property and equipment additions. Revenue for these grants is either recognized upon receipt of the funds or over the life of the agreement based on the terms of the grant agreement.

EWI has received grants from the State of Colorado; the City of Loveland, Colorado; and the Colorado Advanced Manufacturing Alliance, Inc. in order to establish business operations in Loveland, Colorado. As part of the grants, EWI received approximately \$3,500,000 of funds to acquire equipment and leasehold improvements and approximately \$2,500,000 for other operating costs. These amounts are recognized as restricted revenue when received due to grantor restrictions on use of funds. During 2018, EWI acquired \$961,579 of property and equipment through these grants.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 5 - Property and Equipment Funded by Grants (Continued)

EWI has received appropriations from the State of Ohio through OSU to invest in advanced sheet metal forming equipment and facilities. As part of this agreement, EWI will provide access to its staff and equipment for training OSU students, usage of tooling and equipment for demonstrations and research, promotion of collaborative forming activities, and direct financial contributions to OSU's Center for Precision Forming over a period of 20 years, commencing when the equipment is installed and ready for usage. As part of this agreement, EWI will receive approximately \$1,500,000 of funds to acquire advanced sheet metal forming equipment and facilities in exchange for use of the equipment and certain services provided to OSU. During 2018, EWI acquired \$1,477,500 of property and equipment under this grant agreement. These amounts will be recognized as revenue over the term of the grant agreement. As of June 30, 2019 and 2018, unearned revenue related to this grant was \$1,346,058 and \$1,411,779, respectively.

Note 6 - Intangible Assets

Intangible assets of EWI at June 30, 2019 and 2018 are summarized as follows:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 1,749,900	\$ 731,130	\$ 1,711,113	\$ 688,790

Amortization expense for intangible assets totaled \$116,793 and \$102,534 for the years ended June 30, 2019 and 2018, respectively.

Estimated amortization expense for the years ending June 30 is as follows:

Years Ending	Amount
2020	\$ 108,551
2021	95,460
2022	77,562
2023	75,106
2024	70,885
Thereafter	591,206
Total	\$ 1,018,770

Note 7 - Long-term Debt

EWI had a term loan with a bank that bears interest at LIBOR plus 2.15 percent (an effective rate of 4.22 percent at June 30, 2018). The term loan required monthly payments of \$7,589 plus interest and was scheduled to mature in July 2020. The term loan is collateralized by substantially all assets of EWI. The balance of the term loan was \$189,723 as of June 30, 2018. During 2019, the term loan was fully paid off.

Interest expense for 2019 and 2018 was \$47,270 and \$37,877, respectively.

EWI entered into an interest rate swap agreement maturing in July 2020 in order to convert a certain variable-rate term debt to a fixed rate. Under the swap agreement, EWI paid interest at a fixed rate of 3.99 percent and received interest at a variable rate equal to monthly LIBOR plus 2.15 percent based on the notional amount.

The interest rate swap is recognized in the accompanying consolidated statement of financial position at fair value. Changes in the fair value of the interest rate swap are recognized in the consolidated statement of activities and changes in net assets. (Losses) and gains totaling \$(1,947) and \$377 have been recognized for 2019 and 2018, respectively.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 7 - Long-term Debt (Continued)

At June 30, 2018, the notional amount of the swap agreement was \$189,723. The fair value of the interest rate swap was a liability of \$1,947 at June 30, 2018. The related term loan was paid off during 2019, and the interest rate swap was terminated.

Note 8 - Research and Education Activities

Revenue and other support from research and education activities from government and commercial clients is as follows for the years ended June 30:

	2019	2018
Government	\$ 12,299,280	\$ 8,418,904
Commercial	17,856,217	15,987,713
	<u>\$ 30,155,497</u>	<u>\$ 24,406,617</u>

At June 30, 2019 and 2018, EWI had accounts receivable (billed) balances related to research and education activities from government clients of \$1,187,723 and \$810,991, respectively, and commercial clients of \$2,020,578 and \$1,781,783, respectively.

Note 9 - Capital Leases

EWI leases equipment under long-term lease arrangements that are classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, payments ranging from to \$1,700 to \$9,996 are due monthly through October 2023. The leases have been imputed with interest at annual rates ranging from 5.32 percent to 6.68 percent. One of the capital leases matured in March 2018.

At June 30, 2019 and 2018, property under capital leases consists of property and equipment with a gross cost of \$730,239. Accumulated depreciation on the property under capital leases was \$199,356 and \$78,952 at June 30, 2019 and 2018, respectively.

Depreciation expense on property under capital leases is included in the depreciation amount disclosed in Note 4.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 9 - Capital Leases (Continued)

The future minimum lease payments under capital leases are as follows:

Years Ending June 30	Amount
2020	\$ 140,360
2021	123,348
2022	119,957
2023	119,957
2024	25,990
Total	529,612
Less amount representing interest	54,583
Present value of net minimum lease payments	475,029
Less current obligations	117,736
Long-term obligations under capital leases	\$ 357,293

Note 10 - Operating Leases

EWI leases property and equipment under various noncancelable operating leases expiring at various dates through June 2023. Total rent expense under these leases was \$260,866 and \$294,359 for 2019 and 2018, respectively.

Future minimum annual commitments under these operating leases are approximately as follows:

Years Ending June 30	Amount
2020	\$ 188,000
2021	190,000
2022	44,000
2023	22,000
Total	\$ 444,000

Note 11 - Employee Benefit Plan

EWI sponsors a 401(k) plan that covers all eligible full-time employees. The plan provides for EWI to make a discretionary matching contribution on behalf of each eligible participant equal to 50 percent of the first 8 percent of compensation deferred by the participant to the plan. EWI contributes an additional safe harbor contribution to each participant's account equal to 3 percent of compensation. Contributions to the plan totaled \$641,580 and \$738,880 for the years ended June 30, 2019 and 2018, respectively.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 12 - Commitments and Contingencies

The amount of U.S. government contract expense reflected in the consolidated financial statements attributable to cost reimbursement contracts is subject to audit and possible adjustment by the Defense Contract Audit Agency. EWI, as a not-for-profit organization receiving federal funds, is required to have an annual compliance audit in accordance with the provisions of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

EWI has certain pending legal proceedings that are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by EWI. In the opinion of management, the ultimate disposition of such proceedings is not expected to have a material adverse effect on EWI's consolidated financial position, results of operations, or cash flows.

Note 13 - Related Party

During 2014, EWI cofounded the American Lightweight Materials Manufacturing Innovation Institute (ALMMII) dba LIFT with two other unrelated parties as corporate members. ALMMII is a related party of EWI due to being one of three corporate members and having a voting membership on the board of directors of ALMMII. EWI had accounts receivable from ALMMII totaling \$627,483 and \$451,858 at June 30, 2019 and 2018, respectively, and earned revenue from ALMMII totaling \$1,688,598 and \$1,005,850 for the years ended June 30, 2019 and 2018, respectively.

Note 14 - Income Taxes

The components of the income tax expense included in the consolidated statement of activities and changes in net assets are all attributable to continuing operations and are detailed as follows:

	2019	2018
Deferred income tax expense	\$ 78,000	\$ 272,000
Current income tax recovery	(20,077)	-
Total income tax expense	<u>\$ 57,923</u>	<u>\$ 272,000</u>

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to taxable income before taxes is as follows:

	2019	2018
Income tax recovery on unrelated business income	\$ (269,077)	\$ (414,000)
Income tax expense (recovery) for Fabrisonic	78,000	(25,000)
Change in valuation allowance	249,000	324,000
Changes to statutory tax rates	-	387,000
Total income tax expense	<u>\$ 57,923</u>	<u>\$ 272,000</u>

The Tax Cuts and Jobs Act was signed into law effective December 2017. The reduction of the corporate tax rates decreased the valuation of deferred tax assets at June 30, 2018. The change is included in income tax expense for the year ended June 30, 2018, as shown above. As the rate reduction was effective beginning in calendar year 2018, a blended tax rate of 28.75 percent is used for the year ended June 30, 2018.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 14 - Income Taxes (Continued)

The details of the net deferred tax asset are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax asset - Net operating loss carryforward	\$ 847,000	\$ 676,000
Valuation allowance recognized for deferred tax assets	<u>(573,000)</u>	<u>(324,000)</u>
Net deferred tax asset	<u>\$ 274,000</u>	<u>\$ 352,000</u>

Realization of deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of loss carryforwards. EWI has net operating loss carryforwards available to reduce future income taxes. Net operating loss generated for 2018 and prior expire in 2037 through 2038, and net operating losses generated in 2019 and forward do not expire. Due to uncertainty as to the realization of net operating loss carryforwards, a valuation allowance has been recorded against the related deferred tax assets. The amount of the net deferred tax asset is considered realizable; however, it could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Note 15 - Liquidity and Availability of Resources

EWI's financial assets available within one year of June 30 for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 6,416,728	\$ 5,950,155
Accounts receivable	<u>5,677,241</u>	<u>5,742,251</u>
Total	<u>\$ 12,093,969</u>	<u>\$ 11,692,406</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date.

EWI has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to pay for general expenditures, liabilities, and other obligations that come due.

EWI also realizes there could be unanticipated liquidity needs.

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Note 16 - Functional Expenses

For the year ended June 30, 2019, expenses are functionally allocated as follows:

	Cost of Research and Education Activities	General and Administrative	Total
Personnel costs	\$ 16,857,927	\$ 2,434,820	\$ 19,292,747
Depreciation and amortization	1,847,955	44,465	1,892,420
Lab and office supplies	1,318,090	180,858	1,498,948
Miscellaneous	440,935	62,118	503,053
Occupancy	1,039,429	86,838	1,126,267
Project services and materials	4,916,299	-	4,916,299
Professional services	1,683,608	260,721	1,944,329
Travel	676,626	70,924	747,550
Marketing	407,792	-	407,792
Advertising	-	245,427	245,427
Insurance	249,114	43,031	292,145
Total	\$ 29,437,775	\$ 3,429,202	\$ 32,866,977

For the year ended June 30, 2018, expenses are functionally allocated as follows:

	Cost of Research and Education Activities	General and Administrative	Total
Personnel costs	\$ 14,418,457	\$ 2,409,023	\$ 16,827,480
Depreciation and amortization	1,681,106	48,837	1,729,943
Lab and office supplies	1,142,079	127,237	1,269,316
Miscellaneous	344,989	19,273	364,262
Occupancy	981,959	113,269	1,095,228
Project services and materials	4,605,670	-	4,605,670
Professional services	1,761,671	212,768	1,974,439
Travel	636,727	43,956	680,683
Marketing	351,255	-	351,255
Advertising	-	98,766	98,766
Insurance	266,722	46,674	313,396
Total	\$ 26,190,635	\$ 3,119,803	\$ 29,310,438

Edison Welding Institute, Inc.

**Federal Awards
Supplemental Information
June 30, 2019**

Independent Auditor's Reports

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Edison Welding Institute, Inc.

We have audited the consolidated financial statements of Edison Welding Institute, Inc. as of and for the year ended June 30, 2019 and have issued our report thereon dated January 8, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to January 8, 2020.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, 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.

Plante & Moran, PLLC

January 17, 2020

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*

Independent Auditor's Report

To Management and the Board of Directors
Edison Welding Institute, Inc.

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 statements of Edison Welding Institute, Inc. (EWI), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated January 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered EWI'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 EWI's internal control. Accordingly, we do not express an opinion on the effectiveness of EWI'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 EWI's consolidated 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EWI's consolidated financial statements are free from 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*.

To Management and the Board of Directors
Edison Welding Institute, Inc.

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 EWI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EWI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

January 8, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required
by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Edison Welding Institute, Inc.

Report on Compliance for Each Major Federal Program

We have audited Edison Welding Institute, Inc.'s (EWI) 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 EWI's major federal program for the year ended June 30, 2019. EWI's major federal program is identified in the summary of auditor's 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of EWI'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; 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* (the "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 EWI'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 EWI's compliance.

Opinion on Each Major Federal Program

In our opinion, EWI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of EWI 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 EWI'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 EWI's internal control over compliance.

To the Board of Directors
Edison Welding Institute, Inc.

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 a 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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2019-001 and 2019-002, that we consider to be significant deficiencies.

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.

Plante & Moran, PLLC

January 17, 2020

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number/Pass- through Entity Identifying Number	Total Amount Provided to Subrecipients	Total Federal Expenditures
Research and Development Cluster				
Department of Defense				
Air Force Defense Research Sciences Program	12.800	FA8650-15-C-5702	\$ -	\$ (5,352)
Air Force Defense Research Sciences Program	12.800	W911NF-13-2-0038	-	252,637
Basic Scientific Research	12.431	DAAD19-03-2-0002	-	1,755
Basic and Applied Scientific Research	12.300	N00014-14-14-0688	-	39,444
Basic and Applied Scientific Research	12.300	N00014-10-D-0062	-	2,061
Basic and Applied Scientific Research	12.300	N00014-10-D-0062	-	5,115
Technology Transfer and Implementation Plan (TTIP) NSRP	N/A	ATI TOA Agreement 2019-375	-	43,409
Technology Transfer and Implementation Plan (TTIP) NSRP Passed through Advanced Cooling Technologies - Linear Friction Welding Consulting	N/A	ATI TOA Agreement 2019-375 SBIR AF 181-051	-	7,795 10,893
Passed through Advanced Technology Institute:				
Basic and Applied Scientific Research	12.300	CNST 2012-419 Order 12	-	215,309
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	1,207
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	277,729
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	1,103,452
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	125,192
Basic and Applied Scientific Research	12.300	Subcontract #2018-417	-	83,602
Basic and Applied Scientific Research	12.300	Subcontract #2018-416	38,040	107,824
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	44,541
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	53,188
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	174,188	394,690
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	9,284
Basic and Applied Scientific Research	12.300	Subcontract #2017-507	-	45,031
Basic and Applied Scientific Research	12.300	Subcontract #2019-375	-	22,910
Basic and Applied Scientific Research	12.300	Subcontract #2019-375	-	10,285
Total passed through Advanced Technology Institute			212,228	2,494,244
Passed through America Makes -				
Air Force Defense Research Sciences Program	12.800	FA8650-16-2-5700 Prime	-	60,457
Passed through American Lightweight Materials Manufacturing Innovation Institute:				
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	N00014-14-2-0002	-	24,064
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Sub Agreement 0004C-4	-	210,248
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Sub Agreement 0004D-7	-	382,906
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Sub Agreement 0007B-6	-	32,347
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Sub Agreement 0004B-6	-	25,459
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Subaward #0004F-7	-	376,987
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Subaward #0004E-4	-	210,444

Edison Welding Institute, Inc.

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number/Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Total Federal Expenditures
Passed through American Lightweight Materials Manufacturing Innovation Institute (Continued):				
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	PO #0062	\$ -	\$ 43,315
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	PO #0075	-	50,893
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	PO #0063	-	86,898
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Subaward #TMP R3-3	-	243,173
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	Subaward #0003E-3	-	14,611
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	PO # 40047-02	-	31,518
Basic, Applied, and Advanced Research in Science and Engineering; Science, Technology, Engineering	12.630	LIFT PO 0074	-	16,424
Total passed through American Lightweight Materials Manufacturing Innovation Institute			-	1,749,287
Passed through CNST - Basic and Applied Scientific Research	12.300	CNST 2015-451 Order 3	-	27,911
Passed through DMDII - Basic and Applied Scientific Research in Science and Engineering	12.630	Contract #0320170001	-	153
Passed through Flightware: Process Monitoring and Control Techniques for Laser Powder Bed Fusion	N/A	PO # 0830EW	-	29,480
Design, Develop, and Demonstrate Integrated Area Profilometer (IAP) Sensor System	N/A	PO # 06219EW	-	2,900
Total passed through Flightware			-	32,380
Passed through Luna Innovations Incorporated - Additive Manufacturing Sensor Fusion Technologies or Process Monitoring and Control	N/A	Subcontract No. 541030	-	40,000
Passed through GE Global Research - Air Force Defense Research Sciences Program	12.800	GE Sub 20182090	-	234,708
Passed through Naval Shipbuilding & Advanced: Basic and Applied Scientific Research	12.300	Subcontract#2015-451 Order 5	-	240,481
Basic and Applied Scientific Research	12.300	Subcontract#2015-451 Order 6	-	259,615
Total passed through Naval Shipbuilding & Advanced			-	500,096
Passed through NSAM - ONR ManTech - Basic and Applied Scientific Research	12.300	CNST 2015-451 Orders 1 & 2	-	80,797
Passed through RTT - Basic and Applied Scientific Research	12.300	Subcontract # 17NSRP-RA01	-	123,826
Passed through UES, Inc. - Air Force Defense Research Sciences Program	12.800	Prime Contract # FA8650-15-D-5230, TO-0001	-	23,016
Passed through Wartsila Defense Inc - Weld Process Demonstrations and Characterizations	N/A	PO # P18-29036	-	105,427
Total Department of Defense			212,228	5,830,059

See notes to schedule of expenditures of federal awards.

Edison Welding Institute, Inc.

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Contract Number/Pass- through Entity Identifying Number	Total Amount Provided to Subrecipients	Total Federal Expenditures
Department of Energy				
Passed through Los Alamos National Laboratory - Los Alamos National Laboratory - Fire Protection	81.140	89233218CNA00001	\$ -	\$ 5,113
Passed through Knolls Atomic Power Laboratory: Nuclear Energy Research, Development and Demonstration	81.121	Master Agreement NO 125025	-	12,222
Nuclear Energy Research, Development and Demonstration	81.121	Master Agreement NO 125025	-	14,375
Total passed through Knolls Atomic Power Laboratory			-	26,597
Passed through Oak Ridge National Laboratory: Tekna Glass Nano Powders	N/A	PO # 4000164763	-	9,738
Welding Process Review	N/A	PO # 4000169045	-	66,243
Total passed through Oak Ridge National Laboratory			-	75,981
Passed through Bechtel Marine Propulsion Corp: Impeller Hybrid Manufacturing Study Using Electron Beam Powder Bed Fusion with 316L SS	N/A	PO # LAE-128847	-	15,956
316L Stainless Steel Support Structure Study for Impeller Builds	N/A	PO # C200793	-	23,535
Total passed through Bechtel Marine Propulsion Corp			-	39,491
Passed through Princeton Plasma Physics Lab - Welding Consultation Services	N/A	Princeton Subcon S016597-K	-	21,555
Passed through V-Glass - Office of Science Financial Assistance Program	81.049	N/A	-	63,451
Passed through USCAR - Conservation Research and Development	81.086	PO # 19-3026-AMP	-	2,021
Total Department of Energy			-	234,209
Department of Transportation				
Railroad Research and Development	20.313	DTFR5316C00002	-	80,277
Passed through Thornton Tomasetti - Railroad Research and Development	20.313	Subcontract # TTWAS17.02	-	102
Total Department of Transportation			-	80,379
National Aeronautics and Space Administration				
Passed through Jet Propulsions Lab - Support for MMPDS Development	N/A	Subcon No. 1619830	-	24,264
Passed through Luna Innovations Incorporated - NASA STTR Phase I T13.01	N/A	80NSSC18P2125, 3264-NAS-1S	-	39,773
Passed through TGV Rockets - UAM of a Deep Throttling Methane Injector	N/A	80NSSC18P2151	-	12,630
Total National Aeronautics and Space Administration			-	76,667
Nuclear Regulatory Commission				
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	NRC-HQ-84-14-C-0009	52,894	98,866
Total Research and Development Cluster and Total Federal Expenditures			\$ 265,122	\$ 6,320,180

See notes to schedule of expenditures
of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Edison Welding Institute, Inc. (EWI) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of EWI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of EWI.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

EWI has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster

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

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Audit Findings

None

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Section III - Federal Program Audit Findings

Reference Number	Finding
2019-001	<p>CFDA Number, Federal Agency, and Program Name - CFDA No. 12.800, Department of Defense, Air Force Defense Research Sciences Program</p> <p>Federal Award Identification Number and Year - GE Sub 20182090</p> <p>Pass-through Entity - GE Global Research</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - Costs must meet the following general criterion in order to be allowable under federal awards: conform to any limitations or exclusions set forth in these principles or in the federal award as to types or amount of cost items (2 CFR 200.403(a,b)).</p> <p>Condition - Edison Welding Institute, Inc. (EWI) assigned costs to a federal award that were not an allowable activity in accordance with the award agreement. These costs assigned were for a fee, a profit rate that EWI is able to assign to various federal awards.</p> <p>Questioned Costs - \$22,950</p> <p>Identification of How Questioned Costs Were Computed - Questioned costs were the total amount of fees charged to the grant for the fiscal year that were not allowable costs in accordance with the grant agreement.</p> <p>Context - Of the sample of 12 grants selected for testing for the research and development cluster major program, 1 grant had unallowable costs charged. This type of cost was disallowed under the specific grant identified.</p> <p>Cause and Effect - EWI did not have proper controls in place to ensure that fee costs assigned to federal awards were allowable and adequately documented in the approved award agreement. For this specific federal award, there was a misunderstanding, as EWI's initial proposal included a fee, but the final federal award agreement did not specifically allow for a fee. As a result, EWI charged fees that were not allowable in accordance with the grant agreement.</p> <p>Recommendation - EWI should implement a control process to review all new federal awards to ensure that fees charged to the grant are allowable and adequately documented in the award agreement.</p> <p>Views of Responsible Officials and Corrective Action Plan - Going forward, the government proposal team will obtain specific fee allowability details (allowability and percent) from the appropriate agency contact before the bid/no bid decision is made. It will be documented in the bid decision worksheet. The legal team will verify allowability and percent from the contracting officer during the contracting process and ensure the details are disclosed in the contractual documents.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Reference Number	Finding
2019-002	<p>CFDA Number, Federal Agency, and Program Name - Research and Development Cluster; Department of Defense, Department of Transportation, National Aeronautics and Space Administration, Nuclear Regulatory Commission; various programs</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - Per requirements for provisional rates from 2 CFR 200, Appendix IV, provisional indirect cost rates are required to be obtained for each fiscal period, and final rates based on actual allowable costs are required to be obtained after each fiscal period. If provisional rates exceed the final rates based on actual allowable costs, adjustments are required to be made, resulting in return of funds.</p> <p>Condition - Edison Welding Institute, Inc. did not request provisional indirect cost rate approval for the year ended June 30, 2019 from its cognizant agency (Department of Defense) but used a previously approved rate for the year ended June 30, 2018.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Provisional indirect cost rate approval was not obtained for the year ended June 30, 2019. Instead, EWI used a previously approved provisional indirect cost rate that was approved for the year ended June 30, 2018. EWI monitored actual indirect costs throughout the year to ensure that the indirect costs charged to the grant under the fiscal year 2018 provisional rates did not exceed actual indirect costs. As indirect costs charged under the fiscal year 2018 provisional rates did not exceed the costs allowed under the fiscal year 2019 final rates, there are no questioned costs.</p> <p>Cause and Effect - EWI did not have a process in place to ensure that the annual provisional and final indirect cost rate approvals were obtained in a timely manner, resulting in EWI having to use fiscal year 2018 rates for fiscal year 2019.</p> <p>Recommendation - EWI should implement a process to ensure that annual provisional and final indirect cost rate approvals are obtained in a timely manner.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Going forward, the fiscal year final rate approval will be requested within three months of audit completion. Fiscal year provisional rates will be requested within three months of completion of the budget.</p>



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Edison Welding Institute, Inc.

January 8, 2020

Summary Schedule of Prior Audit Findings

Prior Year Finding Number:

2018-001

Fiscal Year in Which the Finding Initially Occurred:

Year ended June 30, 2018

Federal Program, CFDA Number and Name:

N/A

Original Finding Description:

Funds received under a certain grant agreement were reflected as deferred revenue and should have been recorded as revenue based on the terms of the grant.

Status/Partial Corrective Action (as applicable):

Fully corrected as of June 30, 2019

Planned Corrective Action:

N/A



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Edison Welding Institute, Inc.

January 8, 2020

Corrective Action Plan

Finding Number: 2019-001

CFDA Number, Federal Agency, and Program Name: CFDA No. 12.800, Department of Defense, Air Force Defense Research Sciences Program

Condition: Edison Welding Institute, Inc. (EWI) assigned costs to a federal award that were not an allowable activity in accordance with the award agreement. These costs assigned were for fee, a profit rate that EWI is able to assign to various federal awards.

Planned Corrective Action: Going forward, the Government Proposal team will obtain specific fee allowability details (allowability and %) from the appropriate agency contact before the bid/no bid decision is made. It will be documented in the bid decision worksheet. The legal team will verify allowability and % from the contracting officer during the contracting process and ensure the details are disclosed in the contractual documents.

Contact person responsible for corrective action: Government team lead – Mark Schimming; Legal counsel – Kelly Roach

Anticipated Completion Date: 01/16/2020

Finding Number: 2019-002

CFDA Number, Federal Agency, and Program Name: Research and Development Cluster; Department of Defense, Department of Transportation, National Aeronautics and Space Administration, Nuclear Regulatory Commission; Various Programs

Condition: Edison Welding Institute, Inc. (EWI) did not request provisional indirect cost rate approval for the year ended June 30, 2019 from their cognizant agency (Department of Defense), but used a previously approved rate for the year ended June 30, 2018.

Planned Corrective Action: Going forward, fiscal year final rate approval will be requested within 3 months of audit completion. Fiscal year provisional rates will be requested within 3 months of completion of budget.

Contact person responsible for corrective action: Robert Walter, CFO

Anticipated Completion Date: 03/01/2020