

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Economic Growth Business Incubator

We have audited the accompanying financial statements of Economic Growth Business Incubator (a nonprofit organization), which comprise the statements of financial position as of December 31, 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 Economic Growth Business Incubator as of December 31, 2019 and 2018, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson, Scott + Associates, P.C.

Austin, Texas

June 11, 2020

**Economic Growth Business Incubator
Statements of Financial Position
As of December 31, 2019 and 2018**

A S S E T S

	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 136,191	\$ 111,105
Accounts receivable - less allowance for doubtful receivables of \$2,500	12,436	26,858
Total current assets	\$ 148,627	\$ 137,963
 FIXED ASSETS:		
Technology equipment and software	\$ 3,816	\$ 50,526
Accumulated depreciation and amortization	(64)	(50,526)
Total fixed assets	\$ 3,752	\$ 0
 Total assets	 \$ 152,379	 \$ 137,963

N E T A S S E T S

CURRENT LIABILITIES:		
Payroll liabilities	\$ 1,640	\$ 0
Total current liabilities	\$ 1,640	\$ 0
 NET ASSETS:		
Without donor restrictions	\$ 150,739	\$ 137,963
Total liabilities and net assets	\$ 152,379	\$ 137,963

See accompanying notes and auditor's report.

Economic Growth Business Incubator
Statements of Activities
For the year ended December 31, 2019 and 2018

	2019	2018
REVENUES:		
Contributions	\$ 5,940	\$ 5,269
Donated facilities and supplies	36,729	36,395
Grants	197,230	146,925
Fundraiser	66,243	30,771
Training and coaching fees	11,076	4,946
Incubator rental income	10,767	8,496
Back office services and fees	153,612	41,115
Miscellaneous	110	568
Total revenues	\$ 481,707	\$ 274,485
EXPENSES:		
Program services	\$ 414,191	\$ 252,861
Administrative services		
Management and general	42,493	49,399
Fundraising	12,247	4,155
Total expenses	\$ 468,931	\$ 306,415
CHANGE IN NET ASSETS	\$ 12,776	\$ (31,930)
Net assets, beginning	\$ 137,963	\$ 169,893
NET ASSETS, ending	\$ 150,739	\$ 137,963

See accompanying notes and auditor's report.

**Economic Growth Business Incubator
Statements of Cash Flows
For the years ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,776	\$ (31,930)
Adjustments to reconcile change in net assets to net cash provided by/(used by) operating activities:		
Depreciation	64	-
(Increase)/decrease in operating assets		
Accounts receivable	14,422	(11,501)
Increase/(decrease) in operating liabilities		
Accounts payable	<u>1,640</u>	<u>-</u>
Net cash provided by/(used by) operating activities	28,902	(43,431)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(3,816)</u>	<u>-</u>
Net cash provided by/(used by) investing activities	(3,816)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	25,086	(43,431)
CASH AND CASH EQUIVALENTS, beginning of year	111,105	154,536
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 136,191</u>	<u>\$ 111,105</u>

See accompanying notes and auditor's report.

**Economic Groth Business Incubator
Statement of Functional Expenses
For the year ended December 31, 2019**

	<u>Program Services</u>	<u>Administrative</u>	<u>Total</u>
EXPENSES:			
Dues & subscriptions	\$ 738	\$ 0	\$ 738
Fundraising	0	12,247	12,247
Insurance	3,271	577	3,848
Marketing	2,319	580	2,899
Meetings	1,544	386	1,930
Miscellaneous expense	7,696	405	8,101
Office expenses	5,091	1,865	6,956
Professional fees	9,170	3,930	13,100
Back office expenses	106,455	0	106,455
Rent	27,840	6,960	34,800
Salaries and benefits	249,534	27,726	277,260
Training	25	0	25
Travel	508	0	508
Depreciation	0	64	64
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	\$ 414,191	\$ 54,740	\$ 468,931

See accompanying notes and auditor's report.

**Economic Groth Business Incubator
Statement of Functional Expenses
For the year ended December 31, 2018**

	<u>Program Services</u>	<u>Administrative</u>	<u>Total</u>
EXPENSES:			
Bad debt expense	\$ 2,500	\$ 0	\$ 2,500
Credit card fees	1,099	0	1,099
Contract labor	2,535	845	3,380
Donated facilities	27,812	6,988	34,800
Dues & subscriptions	738	0	738
Fundraising	0	4,155	4,155
Insurance	2,840	501	3,341
Marketing	1,585	176	1,761
Meetings	747	186	933
Miscellaneous expense	2,742	307	3,049
Office expenses	7,207	2,669	9,876
Professional fees	7,070	3,030	10,100
Program expenses	1,974	0	1,974
Salaries and benefits	192,886	34,038	226,924
Training	147	590	737
Travel	979	69	1,048
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	\$ 252,861	\$ 53,554	\$ 306,415

See accompanying notes and auditor's report.

ECONOMIC GROWTH BUSINESS INCUBATOR

Notes to Financial Statements

Organization and Purpose:

Economic Growth Business Incubator (EGBI) is a non-profit organization that provides training, coaching, and support to aspiring and existing business owners who face barriers to growing a successful business. The organization is supported primarily through grants and contributions. Approximately 24% of the organization's support in the current year came from the Housing Authority of the City of Austin.

EGBI is a not-for-profit organization that is exempt from income taxes under Internal Revenue Code section 501(c)(3) and classified by the Internal Revenue Service as other than a private foundation. The organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. EGBI reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. Currently, all the organization's net assets are without donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restriction – Net assets whose use is limited by donor-imposed time and/or purchase restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. EGBI has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received. Currently all revenue is without restriction.

Revenue is recorded at the estimated net realizable amounts from clients for services rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Contributions consist of grants and gifts from

ECONOMIC GROWTH BUSINESS INCUBATOR
Notes to Financial Statements

individuals, corporations, and foundations. Pledges are recognized as revenue when an unconditional promise is received

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

For purposes of the statement of cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

EGBI capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the useful life of the assets, which was 5 years for the technology equipment and ranged from 2 to 3 years for software. During the current year, EGBI purchased computer equipment for \$3,816. The current year depreciation expense is \$64.

EGBI's policy for determining when an account is past due or delinquent is when the account is over 90 days or more past due. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which could influence the ability of account receivable recipients to repay the amounts per the invoice terms. In the prior year, the organization deemed it necessary to establish a reserve for doubtful accounts. For the current year, the allowance account remained \$2,500 and additional current year bad debt expense is \$1,820.

EGBI receives donated services from a variety of unpaid volunteers assisting the organization in carrying out its activities. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer efforts have not been met.

Donated Facilities:

The organization received the use of office space at no charge from the Housing Authority of the City of Austin. This space is approximately 2,500 square feet. The estimated fair value of the use of this facility has been included in these financial statements. The value for rent plus utilities has been estimated at a total of \$34,800 per year.

Functional Expenses:

Expenses are charged to each program based on direct expenses incurred. Any expenses which

ECONOMIC GROWTH BUSINESS INCUBATOR
Notes to Financial Statements

are not specifically attributable to program services or supporting services are allocated by management based on various allocation factors.

During the current year, management determined the allocation between program and administrative expenses should show increased program expenses. This determination was made by reviewing several best practices to determine more accurate allocation percentages for indirect expenses incurred. During this process, EGBI determined the accurate allocation should approximate 88% program expenses and 12% administrative expenses. A summary of expense by category is shown below:

	<u>2019</u>	<u>2018</u>
Expenses:		
General and Administrative	\$ 54,676	\$ 53,554
Education/Program	\$414,191	\$252,861
Total expenses	<u>\$468,867</u>	<u>\$306,415</u>

Significant Estimates & Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Major Customers

For the year ended December 31, 2019 transactions with the Housing Authority of the City of Austin accounted for approximately 24% of the organization's total revenue. In the prior year, transactions with the Housing Authority of the City of Austin accounted for approximately 42% of the organization's total revenue.

Employee Benefit Plans

During the current year, EGBI established a Savings Incentive Match Plan for Employee retirement plan, also known as a SIMPLE IRA plan, in which substantially all employees may participate. EGBI matches employee contributions either based on a set amount or on a percentage of salary contributed by participants up to a maximum of 3 percent. Employee

ECONOMIC GROWTH BUSINESS INCUBATOR
Notes to Financial Statements

contributions are 100% vested immediately. EGBI's expense for the plan was \$1,359.23 for the current year.

Liquidity

EGBI's financial assets at the end of the current year consist of cash and cash equivalents of \$136,191. These financial assets are not subject to donor or other contractual restrictions that make them unavailable for general expenditure. Therefore, the entire amount, (\$136,191) is available to support general expenditures for the coming year. The total financial assets total approximately 30% of total current year expenses, so EGBI has the ability to conduct its activities at a similar level for the coming year even if revenues decline.

Subsequent Events:

The Organization has evaluated subsequent events through June 11, 2020, the date which the financial statements were available to be issued. Subsequent to the year ended December 31, 2019, the local economy has been affected by the outbreak of the coronavirus disease. As of the date of the auditor's report, the effect this may have on EGBI cannot be determined. Management will continue to evaluate the direct and indirect effects on EGBI's financial position and operations.