

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conduct our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Economic Growth Business Incubator and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Economic Business Incubator's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepting auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Economic Growth Business Incubator's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Economic Growth Incubator's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters we identified during the audit.

Johnson, Scott & Associates, P.C.

Austin, Texas

June 2, 2022

**Economic Growth Business Incubator
Statements of Financial Position
As of December 31, 2021 and 2020**

A S S E T S

	2021	2020
CURRENT ASSETS:		
Cash and cash equivalents	\$ 345,338	\$ 275,338
Accounts receivable - less allowance for doubtful receivables of \$2,500	37,472	22,662
Prepaid expenses	500	0
Total current assets	\$ 383,310	\$ 298,000
 FIXED ASSETS:		
Technology equipment and software	\$ 9,202	\$ 3,816
Accumulated depreciation and amortization	(2,200)	(827)
Total fixed assets	\$ 7,002	\$ 2,989
 Total assets	 \$ 390,312	 \$ 300,989

N E T A S S E T S

CURRENT LIABILITIES:

Payroll liabilities	\$ 2,101	\$ 1,485
Note payable	0	56,005
Total current liabilities	\$ 2,101	\$ 57,490

N E T A S S E T S:

Without donor restrictions	\$ 388,211	\$ 243,499
Total liabilities and net assets	\$ 390,312	\$ 300,989

See accompanying notes and auditor's report.

Economic Growth Business Incubator
Statements of Activities
For the year ended December 31, 2021 and 2020

	2021	2020
REVENUES:		
Contributions	\$ 5,034	\$ 7,025
Donated facilities and supplies	35,335	35,682
Grants	268,092	309,110
Fundraiser	77,520	73,821
Training and coaching fees	53,603	35,063
Incubator rental income	1,350	6,061
Back office services and fees	45,827	36,052
Miscellaneous	1,057	15,085
Total revenue	\$ 487,818	\$ 517,899
EXPENSES:		
Program services	\$ 393,623	\$ 354,828
Administrative services		
Management and general	57,755	51,650
Fundraising	15,495	18,661
Total expenses	\$ 466,873	\$ 425,139
OTHER REVENUE:		
Note payable forgiveness	123,767	0
Total other revenue	123,767	0
CHANGE IN NET ASSETS	\$ 144,712	\$ 92,760
Net assets, beginning	\$ 243,499	\$ 150,739
NET ASSETS, ending	\$ 388,211	\$ 243,499

See accompanying notes and auditor's report.

**Economic Growth Business Incubator
Statements of Cash Flows
For the years ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 144,712	\$ 92,760
Adjustments to reconcile change in net assets to net cash provided by/(used by) operating activities:		
Depreciation	1,373	763
(Increase)/decrease in operating assets		
Accounts receivable	(14,810)	(10,226)
Prepaid expenses	(500)	-
Increase/(decrease) in operating liabilities		
Accounts payable	<u>616</u>	<u>(155)</u>
Net cash provided by/(used by) operating activities	131,391	83,142
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(5,386)</u>	<u>-</u>
Net cash provided by/(used by) investing activities	(5,386)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment - note payable	(56,005)	-
Proceeds from note payable	<u>-</u>	<u>56,005</u>
Net cash provided by/(used by) financing activities	(56,005)	56,005
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	70,000	139,147
CASH AND CASH EQUIVALENTS, beginning of year	275,338	136,191
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 345,338</u>	<u>\$ 275,338</u>

See accompanying notes and auditor's report.

**Economic Groth Business Incubator
Statement of Functional Expenses
For the year ended December 31, 2021**

	<u>Program Services</u>	<u>Administrative</u>	<u>Total</u>
EXPENSES:			
Dues & subscriptions	\$ 840	\$ 0	\$ 840
Fundraising	0	15,495	15,495
Insurance	3,833	676	4,509
Marketing	671	168	839
Meetings	1,026	256	1,282
Miscellaneous expense	1,853	258	2,111
Office expenses	8,542	3,602	12,144
Professional fees	10,902	4,672	15,574
Program expenses	18,894	275	19,169
Rent	27,840	6,960	34,800
Salaries and benefits	319,222	40,788	360,010
Training	0	100	100
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	<u><u>\$ 393,623</u></u>	<u><u>\$ 73,250</u></u>	<u><u>\$ 466,873</u></u>

See accompanying notes and auditor's report.

**Economic Groth Business Incubator
Statement of Functional Expenses
For the year ended December 31, 2020**

	Program Services	Administrative	Total
EXPENSES:			
Dues & subscriptions	\$ 750	\$ 0	\$ 750
Fundraising	0	18,661	18,661
Insurance	3,628	640	4,268
Marketing	208	52	260
Meetings	366	92	458
Miscellaneous expense	871	363	1,234
Office expenses	6,939	2,449	9,388
Professional fees	12,912	5,534	18,446
Program expenses	21,334	153	21,487
Rent	27,840	6,960	34,800
Salaries and benefits	279,980	34,172	314,152
Training	0	1,235	1,235
	\$ 354,828	\$ 70,311	\$ 425,139
TOTAL EXPENSES	\$ 354,828	\$ 70,311	\$ 425,139

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 27% 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 2020, 2019, and 2018 are subject to examination by the IRS, generally for three years after they were filed.

Summary of Significant Accounting Policies:

The summary of significant accounting policies is presented to assist in understanding EGBI's financial statements. The financial statements and notes are representations of EGBI's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. 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. These assets may be expended for any purpose in performing the objectives of EGBI. These net assets may be used at the discretion of EGBI's management and the board of directors. Board imposed designations are considered net assets without donor restriction.

Net Assets With Donor Restriction – Net assets whose use is limited by donor-imposed time and/or purchase restrictions. Donor restricted contributions where restrictions are met in the year received are recorded in the financial statements as increases in net assets without donor restrictions.

ECONOMIC GROWTH BUSINESS INCUBATOR

Notes to Financial Statements

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, EGBI considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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 a prior year, EGBI deemed it necessary to establish a reserve for doubtful accounts. For the current year, the allowance account remained \$2,500 and there is no additional current year bad debt expense.

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 prior year, EGBI purchased computer equipment for \$2,806. The current year depreciation expense is \$1,373.

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.

EGBI receives revenue from both contributions and provision of services. Currently, all revenue is without donor restriction. Expenses are reported as decreases in net assets without donor restrictions.

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as with donor restrictions or without donor restrictions according to donor stipulations that limit the use of these assets due to either a time or purpose restriction. Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities and changes in net assets. Conditional contributions or promises to give are not recognized until they become

ECONOMIC GROWTH BUSINESS INCUBATOR

Notes to Financial Statements

unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contribution revenue as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

The Organization has adopted Accounting Standards Update (“ASU”) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605), as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions, and therefore no changes to the previously issued audited consolidated financial statements were required on a retrospective basis. The presentation and disclosures of contributions have been enhanced in accordance with the standard.

Service revenue is recorded when the service is provided. Admission revenue for the annual fundraiser is recorded when the event takes place. Educational program fees are recorded as revenue on the date the program occurs. If any of these service revenue categories are received in advance they are classified as deferred program revenue.

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

For the current year, management has determined the accurate allocation of expenses should approximate 84% program expenses and 16% administrative expenses. A summary of expense by category is shown below:

ECONOMIC GROWTH BUSINESS INCUBATOR
Notes to Financial Statements

	<u>2021</u>	<u>2020</u>
Expenses:		
General and Administrative	\$ 73,250	\$ 70,311
Education/Program	\$ 393,623	\$ 354,828
Total expenses	<u>\$ 466,873</u>	<u>\$ 425,139</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, 2021, transactions with the Housing Authority of the City of Austin accounted for approximately 27% of the organization's total revenue. In the prior year, transactions with the Housing Authority of the City of Austin accounted for approximately 19% of the organization's total revenue.

Concentrations

EGBI maintains its cash and cash equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured balance at December 31, 2021 was approximately \$17,521.

Earned Revenue

Earned revenue for the organization has increased by 17% in 2021. This is due to the coaching and training contracts the organization has been able to secure since the beginning of the pandemic. These contracts are renewable on an annual basis.

Employee Benefit Plans

During the prior 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.

ECONOMIC GROWTH BUSINESS INCUBATOR

Notes to Financial Statements

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 contributions are 100% vested immediately. EGBI's expense for the plan in the current year was \$7,570 for the current year.

Liquidity

EGBI's financial assets at the end of the current year consist of cash and cash equivalents of \$345,338. These financial assets are not subject to donor or other contractual restrictions that make them unavailable for general expenditure. Therefore, the entire amount, (\$345,338) is available to support general expenditures for the coming year. The total financial assets total approximately 74% 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.

Note Payable

Both loans received by EGBI under the Paycheck Protection Program (PPP) under Division A, Title 1 of the CARES Act were forgiven by the end of the current year. The revenue is included as "other income" and the note payable balance has been reduced to zero as of the end of the current year.

COVID-19

In 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. Specific to the Organization, COVID-19 may continue to impact various parts of its 2022 operations and financial results including but not limited to reduced funding, additional demands for its services, costs for emergency preparedness, and potential shortage of personnel. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

Subsequent Events:

The Organization has evaluated subsequent events through June 2, 2022, the date which the financial statements were available to be issued.