

ECONOMIC INCUBATORS, INC.

**FINANCIAL STATEMENTS TOGETHER WITH
REPORT OF INDEPENDENT AUDITOR
SEPTEMBER 30, 2018**

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& Company, PA

Certified Public Accountants & Consultants

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Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Economic Incubators, Inc.
3510 Kraft Road, Suite 200
Naples FL 34105

Report on the Financial Statements

We have audited the accompanying financial statements of Economic Incubators, Inc. (a Florida not-for-profit corporation) (dba Naples Accelerator, Florida Culinary Accelerator @ Immokalee and Woodstock's), which comprise the statement of financial position as of September 30, 2018 and the related statements of activities, functional expenses and cash flows for the year 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of America. These 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

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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.

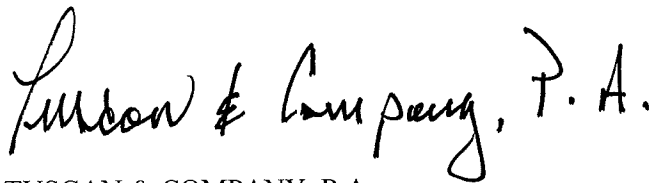
Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Economic Incubators, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

The Exhibit - Management's Response to Independent Auditor's Report to Management, is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Tuscán & Company, P.A." The signature is written in a cursive, flowing style.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 7, 2018

ECONOMIC INCUBATORS, INC.
STATEMENT OF FINANCIAL POSITION
September 30, 2018

ASSETS	<u>Amount</u>
CURRENT ASSETS	
Cash and cash equivalents (including restricted cash of \$10,167)	\$ 14,484
Rental receivables	3,609
Receivable from Collier County	82,282
Contributions receivable	10,000
Prepaid expenses	<u>4,483</u>
TOTAL CURRENT ASSETS	114,858
DEPOSITS	3,625
PROPERTY AND EQUIPMENT, NET	<u>1,108,176</u>
TOTAL ASSETS	<u>\$ 1,226,659</u>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 47,770
Accrued expenses	15,000
Credit card payable	12,336
Sales tax payable	167
Unearned revenue	10,167
Line of credit	<u>33,902</u>
TOTAL CURRENT LIABILITIES	119,342
ACCRUED COMPENSATED ABSENCES	11,333
COMMITMENTS AND CONTINGENCIES	<u>-</u>
TOTAL LIABILITIES	<u>130,675</u>
 NET ASSETS	
Unrestricted	6,722
Temporarily restricted	1,089,262
Permanently restricted	<u>-</u>
TOTAL NET ASSETS	<u>1,095,984</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,226,659</u>

The accompanying notes are an integral part of this statement.

ECONOMIC INCUBATORS, INC.
STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CHANGES IN NET ASSETS			
PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS			
Contract and grant revenue:			
State of Florida	\$ -	\$ -	\$ -
Collier County (Personnel)	-	437,097	437,097
Collier County (Rent)	-	197,900	197,900
Collier County (Facilities)	-	29,998	29,998
Donations	72,630	13,950	86,580
In-kind donations	243,400	-	243,400
Woodstock's sales	4,046	-	4,046
Client revenue:			
Rental	168,673	-	168,673
Refunds/Allowances	(39,376)	-	(39,376)
Miscellaneous Income	47	-	47
	<u>449,420</u>	<u>678,945</u>	<u>1,128,365</u>
TOTAL PUBLIC SUPPORT AND REVENUES			
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>778,776</u>	<u>(778,776)</u>	<u>-</u>
	<u>1,228,196</u>	<u>(99,831)</u>	<u>1,128,365</u>
TOTAL PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS			
EXPENSES			
Program services	1,126,433	-	1,126,433
Supporting services	<u>125,160</u>	<u>-</u>	<u>125,160</u>
	<u>1,251,593</u>	<u>-</u>	<u>1,251,593</u>
TOTAL EXPENSES			
INCREASE (DECREASE) IN NET ASSETS	(23,397)	(99,831)	(123,228)
NET ASSETS, BEGINNING OF YEAR,	<u>30,119</u>	<u>1,189,093</u>	<u>1,219,212</u>
NET ASSETS, END OF YEAR	<u>\$ 6,722</u>	<u>\$ 1,089,262</u>	<u>\$ 1,095,984</u>

The accompanying notes are an integral part of this statement.

ECONOMIC INCUBATORS INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018

FUNCTIONAL EXPENSES	SUPPORTING SERVICES				Total Expenses
	Program Services	Admin.	Fund Raising	Total Supporting Services	
Advertising	\$ 20,720	\$ 2,302	\$ -	\$ 2,302	\$ 23,022
Bad debts	-	-	-	-	-
Bank charges	228	25	-	25	253
Computer and copier services	12,230	1,359	-	1,359	13,589
Depreciation	86,509	9,612	-	9,612	96,121
Dues and subscriptions	1,058	118	-	118	1,176
Facilities and equipment	27,259	3,029	-	3,029	30,288
In-kind professional services	219,060	24,340	-	24,340	243,400
Insurance	7,063	785	-	785	7,848
Interest	758	84	-	84	842
Labor related costs	389,727	43,303	-	43,303	433,030
Licenses and fees	3,068	341	-	341	3,409
Office	6,417	713	-	713	7,130
Professional fees	72,225	8,025	-	8,025	80,250
Participant amenities	7,342	816	-	816	8,158
Repairs and maintenance	6,070	674	-	674	6,744
Rent expense paid by Collier County	178,110	19,790	-	19,790	197,900
Rent expense - other	32,980	3,665	-	3,665	36,645
Sales tax	4	1	-	1	5
Special events	-	-	-	-	-
Sponsorship expense	24,825	2,758	-	2,758	27,583
Travel	7,965	885	-	885	8,850
Utilities	18,103	2,011	-	2,011	20,114
Unrestricted donations events	-	-	-	-	-
Woodstock's	4,712	524	-	524	5,236
TOTAL EXPENSES	\$ 1,126,433	\$ 125,160	\$ -	\$ 125,160	\$ 1,251,593

The accompanying notes are an integral part of this statement.

ECONOMIC INCUBATORS INC.
STATEMENT OF CASH FLOWS
Year Ended September 30, 2018

	<u>Amount</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from contracts and grants	\$ 633,095
Cash received from donations	86,747
Cash received from clients	133,931
Cash payments to suppliers and personnel	(875,083)
Interest received	47
Interest paid	<u>(842)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(22,105)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash payments for deposits	(3,625)
Cash payments for purchases of property and equipment	<u>(20,204)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(23,829)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	211,412
Principal payments on line of credit	<u>(177,510)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>33,902</u>
Net increase (decrease) in cash and cash equivalents	(12,032)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>26,516</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 14,484</u></u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS
TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	<u>Amount</u>
Increase (Decrease) in Net Assets	\$ (123,228)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used In) Operating Activities	
Depreciation expense	96,121
(Increase) decrease in rental receivables	588
(Increase) decrease in other receivables	(41,900)
(Increase) decrease in prepaid expenses	(4,483)
Increase (decrease) in accounts payable	43,860
Increase (decrease) in accrued expenses	(3,584)
Increase (decrease) in credit card payable	10,246
Increase (decrease) in sales tax payable	(73)
Increase (decrease) in unearned revenue	10,167
Increase (decrease) in accrued compensated absences	<u>(9,819)</u>
TOTAL ADJUSTMENTS	<u>101,123</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (22,105)</u>

NON-CASH TRANSACTIONS

Economic Incubator, Inc. received in-kind professional services in the amount of \$243,400 for the years ended September 30, 2018. The related non-cash revenue and expenses have been eliminated from the operating activities in this cash flows statement.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and description of activities

Economic Incubators, Inc. was incorporated on September 11, 2014 as a private, not-for-profit Florida corporation under the provisions of Chapter 617 of the Florida Statutes. Economic Incubators, Inc. does business as (dba) Naples Accelerator, Florida Culinary Accelerator @ Immokalee and Woodstock's. Economic Incubators, Inc. along with Local and State government assists new and emerging businesses in Southwest Florida through a community of entrepreneurs, students, investors and technologists. Located in Collier County (Naples and Immokalee), it is, more specifically, a business accelerator and provides companies with offices, training, use of specialized facilities, networking and conference rooms as well as provides companies access to mentors from industry leaders and investors and sales leads in Collier County.

Economic Incubators, Inc. focuses on companies that have a specified product or service, a customer base and are looking for a more expertise and business services. Economic Incubators, Inc., using Southwest Florida's unique demographics, focuses on soft landing technology, food services, manufacturing, health tourism, and agribusiness industries.

Mission Statement:

Economic Incubators, Inc. is dedicated to assist new and emerging businesses and ideas to achieve new heights by providing business mentorships, essential services and a collaborative environment.

Economic Incubators, Inc., specifically, offers its participants office suites, conference rooms, eat-in-kitchen, use of specialized facilities, Wi-Fi and printing, media rooms, guest speakers, workshops, access to funding through investors, and in-house mentorships from the local business community including SBDC (Small Business Development Center), SCORE (the Service Corps of Retired Executives, Naples location) and the Collier County Office of Economic Development.

Administrative assistance, legal assistance, grant writing and funding opportunities, marketing strategy, networking opportunities, international assistance and partnership resources are also available depending upon specific criteria.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

Basis of accounting

The accounting and reporting policies of Economic Incubators, Inc. conform to accounting principles generally accepted in the United States of America, and are in accordance with the audit guide issued by the American Institute of Certified Public Accountants, "Not-for-Profit Organizations" under the provisions for "Other Not-for-Profit Organizations" and the Accounting Standards issued by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC).

Economic Incubators, Inc. prepares its financial statements on the accrual basis of accounting. Grant and contract revenues are recorded as support when performance occurs under the terms of the grant and contract agreement. Grant revenue includes all resources received from another entity in accordance with a contract or grant document.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, Economic Incubators, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. At September 30, 2018, Economic Incubators, Inc. held no cash equivalents.

Rental receivables

Rental receivables are recorded at actual unpaid receivable balances less any estimated amount determined uncollectible. Uncollectible amounts are determined on a specific identification basis based on the particular tenant's circumstances.

Contract and grant receivables

Contract and grant receivables consist of billings due from grantor or contracted agencies. Economic Incubators, Inc. uses the direct write-off method of accounting for uncollectible accounts associated with grantor or provider agencies. At September 30, 2018, all contract and grant receivables are considered by management to be fully collectible.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair value of financial investments

Economic Incubators, Inc. adheres to FASB ASC 820-10-50-1 through 820-10-50-8, "Fair Value Measurements". This Standard applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. This Standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. This Standard establishes a fair value hierarchy which consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that Economic Incubators, Inc. has the ability to access. At September 30, 2018, Economic Incubators, Inc. held no such investments using these inputs.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. At September 30, 2018, Economic Incubators, Inc. held no such investments using these inputs.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. At September 30, 2018, Economic Incubators, Inc. held no such investments using these inputs.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fundraising costs/revenue

Economic Incubators, Inc. had no specific fundraising revenue or expenses for the year ended September 30, 2018.

Property and equipment

Economic Incubators, Inc.'s policy is to capitalize assets with a cost of \$1,000 or more and a useful life greater than 1 year. Property and equipment is recorded at cost, except for donated items (used in operations of Economic Incubators, Inc.), which are recorded at fair market value as of the date received. Assets are depreciated using straight-line and accelerated methods (which approximate straight-line) over their respective estimated lives, as follows:

<u>Property & Equipment Category</u>	<u>Useful Lives</u>
Building improvements	10 years
Furniture and fixtures	7 years
Equipment	5 years

A portion of the property and equipment used by Economic Incubators, Inc. is owned and recorded by Collier County and provided to Economic Incubators, Inc. at no cost. Therefore, no depreciation expense is recorded on these specific assets for the year ended September 30, 2018.

Impairment of long-lived assets

Economic Incubators, Inc. adheres FASB ASC No. 360-10-50-2, "Accounting for the Impairment or Disposal of Long-Lived Assets." FASB ASC No. 360-10-50-2 requires, among other things, that entities identify events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable.

There was no effect on Economic Incubators, Inc.'s financial statements resulting from FASB ASC No. 360-10-50-2 for the year ended September 30, 2018.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Compensated Absences

Economic Incubators, Inc.'s employees accumulate annual paid leave time based on the number of years of continuous service up to 240 hours. Any accumulated paid leave time over 240 at September 30 are paid annually if the employee used at least 5 days vacation during the fiscal year. Upon termination of employment, employees can receive payment for accumulated annual paid leave time.

Employees who are discharged from their employment for gross misconduct (i.e. theft, violence, under the influence of alcohol, illegal drug use, harassment, etc.) or resign employment with less than two weeks notice may not receive pay for unused paid leave time. Employees whose employment is terminated for any other reason will receive pay for their accrued and unused paid leave time up to a maximum of 240 hours, provided that they have worked for Economic Incubators, Inc. for twelve consecutive months.

Revenue recognition

All grantor-restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Contributions

In order to observe restrictions which donors place on grants and other gifts, as well as designations made by the Board of Directors, all assets, liabilities and activities are accounted for in the following net asset classifications:

Unrestricted Net Assets - not subject to donor-imposed restrictions.

Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Contributions, continued

Temporarily Restricted Net Assets - subject to donor-imposed stipulations that may be fulfilled by actions of Economic Incubators, Inc. to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets - subject to donor-imposed stipulations that they be retained and invested permanently by Economic Incubators, Inc. The donors require Economic Incubators, Inc. to use all or part of the investment return on these net assets for specified or unspecified purposes.

Advertising costs

Economic Incubators, Inc.'s policy is to expense advertising costs as such costs are incurred.

Donated services

Certain amounts for donated professional services have been reflected as in-kind revenue and expense on the Statement of Activities.

However, no amounts for the other volunteer services have been reflected in the financial statements in as a number of volunteers, including the Board of Directors, have donated significant amounts of their time and expertise to Economic Incubators, Inc.'s programs and supporting services.

Functional expenses

The cost of providing the various programs and other activities have been detailed in the Statement of Functional Expenses and summarized on a functional basis in the Statement of Activities. Expenses that can be identified with a specific program service are charged directly to that program, according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income taxes

No provision for income tax expense has been made in the accompanying financial statements since Economic Incubators, Inc. is exempt from income taxes under Internal Revenue Code Section 501(c)(3). In addition, Economic Incubators, Inc. is

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income taxes, continued

not a private Foundation within the meaning of Section 509(a) of the Internal Revenue Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. Management believes Economic Incubators, Inc. met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax. Economic Incubators, Inc.'s income tax returns for the past three years are open and subject to examination by tax authorities, and may change upon examination. Economic Incubators, Inc. reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities.

Accounting for uncertainty in income tax items

The Financial Accounting Standards Board has issued guidance on accounting for uncertainty in income taxes and Economic Incubators, Inc. has adopted this guidance. Economic Incubators, Inc. has evaluated its tax positions and any estimates utilized in its tax returns, and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Interest and penalties associated with uncertain tax positions will be recognized in income tax expense, if required.

Subsequent events

Subsequent events have been evaluated through November 7, 2018, which is the date the financial statements were available to be issued.

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Current vulnerability due to certain concentrations

Economic Incubators, Inc.'s operations are limited to Collier County. In addition, Economic Incubators, Inc. operates in a heavily regulated environment. The operations of Economic Incubators, Inc. are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of State legislature and Collier County Board of County Commissioners or an administrative change mandated by other federal, state and local regulatory agencies. Mandated changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at September 30, 2018:

	<u>Amount</u>
Depository accounts	\$ 14,484
Cash on hand	-
	<u>\$ 14,484</u>

Economic Incubators, Inc. had \$10,167 in restricted cash as of September 30, 2018.

Concentration of credit risk

Economic Incubators, Inc. maintains its cash and cash equivalents in a financial institution located in Southwest Florida. Economic Incubators Inc.'s cash and cash equivalents are federally insured up to \$250,000 per financial institution. At September 30, 2018, Economic Incubators, Inc.'s depository accounts are categorized as follows:

	<u>Bank Balance</u>
Amount covered by Federal Depository Insurance	\$ 15,432
Amount uninsured	-
	<u>\$ 15,432</u>

ECONOMIC INCUBATORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE C - RENTAL RECEIVABLES, NET

Rental receivables consist of the following at September 30, 2018:

	<u>Amount</u>
Private companies	\$ 3,959
Less: Allowance for doubtful accounts	<u>(350)</u>
Rental Receivables, net	<u><u>\$ 3,609</u></u>

Management believes the net rental receivables to be fully collectible.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2018:

	<u>Amount</u>
Construction in progress	\$ -
Equipment	36,403
Furniture and fixtures	60,195
Leasehold improvements	<u>1,128,861</u>
	1,225,459
Less: accumulated depreciation	<u>(117,283)</u>
Property and Equipment, net	<u><u>\$ 1,108,176</u></u>

Depreciation expense for the year ended September 30, 2018 was \$96,121.

The State of Florida has rights and/or security interests over the Economic Incubators, Inc. property and equipment acquired with State grant funds, as well as the proceeds from disposition of such assets. As such, the property and equipment in the amount of \$1,108,176 net of accumulated depreciation of \$117,283 is included in the rights and security interest of the State at September 30, 2018. According to the original grant agreement, the property and equipment must remain in operation for five (5) years or Economic Incubators, Inc. may be required to repay some portion of grant funds used to purchase the property and equipment. These assets were subsequently placed in service during the year ended September 30, 2018. As such, the restriction is expected to expire on September 30, 2022.

Additionally, certain property and equipment purchased by Economic Incubators, Inc. in prior years was reimbursed by Collier County. This property and equipment is utilized by Economic Incubators, Inc. but is considered the property of Collier County and is not included in the financial statements of Economic Incubators, Inc.

NOTE D - PROPERTY AND EQUIPMENT, CONTINUED

Accordingly, no depreciation expense is recognized by Economic Incubators, Inc. on those assets.

NOTE E - FAIR VALUE MEASUREMENTS

Economic Incubators, Inc. adheres to the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10-50-1 through 820-10-50-8. FASB ASC 820-10 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level (1) inputs consist of quoted prices in active markets for identical assets and have the highest priority. Level (2) inputs are from quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly. Level (3) inputs are unobservable and allowed in situations where there is little, if any, market activity for the asset and have the lowest priority. Economic Incubators, Inc. uses appropriate valuation techniques based on the available inputs to measure fair value of its investments. When available, Economic Incubators, Inc. measures fair value using Level (1) inputs because they generally provide the most reliable evidence of fair value. No Level (1), (2) or (3) inputs were used by Economic Incubators, Inc.

Other assets and liabilities such as cash, receivables, other assets, payables and accrued liabilities are recorded at cost which approximate fair value due to the short term nature of the assets and liabilities.

NOTE F - LINE OF CREDIT (LOC)

Economic Incubators, Inc. has a \$50,000 revolving line of credit (LOC) with a financial institution, with interest payable monthly at 2.00% over the lender's prime rate. The annually renewable LOC is due on November 4, 2018. At September 30, 2018, the interest rate was 7.25% and payable monthly. The LOC is collateralized by all Economic Incubators, Inc.'s property, equipment, and tangible and intangible assets including receivables. The outstanding balance on the LOC at September 30, 2018 was \$33,902 and is due in full on November 4, 2018. As such, the LOC is reported as a current liability.

Interest expense incurred on the line of credit for the year ending September 30, 2018 was \$842.

ECONOMIC INCUBATORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE G - NET ASSETS

Net assets consist of the following at September 30, 2018:

	<u>Amount</u>
Unrestricted - undesignated	<u>\$ 6,722</u>
Temporarily restricted for Property & equipment	1,089,262
Restricted donations	<u>-</u>
	<u>1,089,262</u>
Total Net Assets	<u>\$ 1,095,984</u>

At September 30, 2018, Economic Incubators, Inc. held no permanently restricted net assets.

NOTE H - FUNDRAISING COSTS

Economic Incubators, Inc. incurred no specific fundraising costs and generated no specific funds from fundraising during the year ended September 30, 2018. Economic Incubators, Inc. did, however, generate donations of \$86,580.

NOTE I - RENT PROMOTIONS

In order to promote the sale of more memberships, Economic Incubators, Inc. offered up to a 50% discount off of selected initial memberships. These discounts were phased out during year ended September 30, 2018 and all discounts were eliminated with the new rental agreements beginning in August 2018.

NOTE J - ECONOMIC DEPENDENCE

Economic Incubators, Inc.'s operations are substantially dependent on the receipt of support and revenue from grantor and contract agencies and more specifically, Collier County. The Collier County support contract is an annually renewable contract based on a September 30 fiscal year. Loss of these funds and/or large decreases in this type of funding would have a material effect on the financial position of Economic Incubators, Inc. and a negative impact on overall operations. For the year ended September 30, 2018, substantially 75% of total support and revenue is attributable to funds received from grantor and contractor agencies.

NOTE J - ECONOMIC DEPENDENCE, CONTINUED

Economic Incubators, Inc. has entered into multiple agreements with Collier County (the "County"). These agreements provide, among other things, that the County will pay directly Economic Incubators, Inc.'s facility rent and related insurance. Therefore, offsetting amounts for the grant and rent expense of \$197,900 are included in these financial statements. The contracts also provide for annual reimbursement of certain allowable operating costs. These costs and the related reimbursement are reflected in these financial statements. Additionally, certain fixed assets used by Economic Incubators, Inc. are owned and recorded by the County. These assets are provided at no cost to Economic Incubators, Inc. No related costs are recorded by Economic Incubators, Inc. as no reasonable objective method to do so is available to the Economic Incubators, Inc.

NOTE K - COMMITMENTS AND CONTINGENCIES

Economic Incubators, Inc. is currently receiving and previously has received grants, contracts, and other third party funds which are subject to special compliance audits by the grantor and other third party agencies that provide these reimbursements. These audits may result in disallowed expense amounts.

Disallowed amounts, if any, constitute a contingent liability of Economic Incubators, Inc. Accordingly, such liabilities are not reflected within the financial statements of Economic Incubators, Inc., as management does not believe any contingent liabilities that may exist to be material.

NOTE L - DEFINED CONTRIBUTION PLAN

As of October 1, 2016, Economic Incubators, Inc. through its employee leasing agent, implemented a defined contribution plan 401(k) (the "Plan") for its leased employees. Leased employees who complete a three (3) month introductory period and attain age 21 are eligible to join the Plan. Employee contributions to the Plan are based on an elected percentage of payroll deductions by the leased employee not to exceed \$18,500 per calendar year. Certain catch-up provisions apply per Federal Law. The Plan matches leased employee contributions of 100% up to 5% of leased employee contributions using the enhanced Safe Harbor Election. Leased employees are immediately 100% vested in employer matching contributions. Normal retirement

ECONOMIC INCUBATORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE L - DEFINED CONTRIBUTION PLAN, CONTINUED

age for the plan is 65. In-service withdrawals as permitted after attainment of age 59 1/2. Disbursements are provided as a lump sum if vested balances are under \$5,000 and a variety of payment options if over \$5,000. For the year ended September 30, 2018, the employer 401(k) contribution expense was \$13,319.

NOTE M - LEASE COMMITMENT - WOODSTOCK'S

Economic Incubators, Inc. leases retail space for Woodstock's Market for a forty-eight (48) month term beginning October 27, 2016 and ending September 30, 2020 at a monthly rate of \$392 and increasing 3% each year. Monthly rent payments commenced January 1, 2018. Retail rent expense for the year ended September 30, 2018 was \$4,851.

Total future minimum lease payments required under the office lease are as follows:

Years Ending September 30	Amount
2019	\$ 4,997
2020	-
	<u>\$ 4,997</u>

NOTE N - LEASE COMMITMENT - IMMOKALEE

Economic Incubators, Inc. leases warehouse/manufacturing space of 5,274 square feet and an exterior storage cage of 3,600 square feet at the Collier County Airport Authority for Florida Culinary Accelerator @ Immokalee for a sixty (60) month term beginning October 1, 2017 and ending September 30, 2022 at a monthly rate of \$2,680. The lease rental rate may be increased by the lessor annually, effective October 1 of each year, in accordance with the lessor's lease rental rate adjustment program. Monthly rent payments commenced October 1, 2017. The premises will be used for support and launching of culinary and food preparation and assembly of culinary related businesses, distillation of alcohol, food and food safety laboratory, administrative activities, and other business and incubator and accelerator related operations. Economic Incubators, Inc. is responsible for all related utilities and maintenance. Warehouse/manufacturing rent expense for the year ended September 30, 2018 was \$32,160.

ECONOMIC INCUBATORS, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018

NOTE N - LEASE COMMITMENT - IMMOKALEE, CONTINUED

Total future minimum lease payments required under the office lease are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2019	\$ 32,160
2020	32,160
2021	32,160
2022	<u>32,160</u>
	<u>\$ 128,640</u>

NOTE O - RELATED PARTY TRANSACTIONS

During the year ended September 30, 2018, Economic Incubators, Inc. occupied office space through a sublease in a building owned by one of the Board members. Rent for this office space is paid for directly by Collier County, Florida. Rent expense was \$197,900 for the year ended September 30, 2018.



TUSCAN
& Company, PA

Certified Public Accountants & Consultants

Affiliations

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

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INDEPENDENT AUDITOR'S REPORT TO MANAGEMENT

Board of Directors
Economic Incubators, Inc.
3510 Kraft Road, Suite 200
Naples, Florida 34105

In planning and performing our audit of the financial statements of Economic Incubators, Inc. (the "Company") as of and for the year ended September 30, 2018, we considered Economic Incubators, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion of the effectiveness of Economic Incubators, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Economic Incubators, Inc.'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Although our audit was not designed to provide assurance on internal control, we noted certain matters involving internal control and its operation and are submitting, for your review and consideration, the following comments and recommendations designed to help Economic Incubators, Inc. make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to Economic Incubators, Inc.

INTEGRITY SERVICE EXPERIENCE

12621 World Plaza Lane, Building 55 • Fort Myers, FL 33907 • Phone: (239) 333-2090 • Fax: (239) 333-2097

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY:

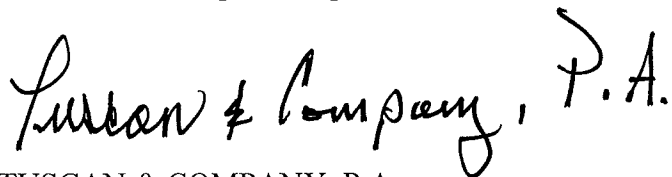
Prior year comments that have been resolved have been deleted.

CURRENT YEAR COMMENTS:

1. Unrestricted Cash Should Be Increased

We recommend the Company take measures to increase cash on hand for unrestricted activities (i.e. additional fundraisers, donations, sponsors, etc.). Ideally, the Company should retain three (3) to six (6) months of budgeted operating expenditures in reserves. We recommend the Company strive for at least three (3) months reserves then reassess the situation. Due to the current funding and budget structure, it would appear the Board and/or Volunteers are likely going to have to take the lead in this effort as the Entity staff are shorthanded.

This report is intended solely for the information and use of executive committee, management, and Board of Directors. This report is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Susan & Company, P.A." in a cursive script.

TUSCAN & COMPANY, P.A.

Fort Myers, Florida

November 7, 2018

EXHIBIT



To: Economic Incubators, Inc. Board of Directors

From: Jennifer Pellechio, President

Date: January 8, 2019

Subject: Management Response Letter

The management team of Economic Incubators, Inc. is in receipt of the draft audit for the fiscal year 2018, prepared by Tuscan & Company CPA, and is submitting the following response to comments received in the Independent Auditors Report to Management. Economic Incubators, Inc. is committed to address, implement and correct these comments noted.

2018 – 1 Unrestricted Cash Should Be Increased

Response: The Board and Management Team are in agreement and every effort is going to be made to achieve increasing cash on hand for unrestricted activities and reserves as suggested.

If you have any questions, please let us know.

Sincerely,

A handwritten signature in blue ink that reads "Jennifer Pellechio".

Jennifer Pellechio
President
Economic Incubators Inc