

BUSINESS DEVELOPMENT CENTRE, INC.
(a component unit of the City of
Lynchburg, VA)

FINANCIAL STATEMENTS AND
COMPLIANCE SECTION

For the Years Ended June 30, 2015 and 2014

And Report of Independent Auditor

BUSINESS DEVELOPMENT CENTRE, INC.

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Report of Independent Auditor

Board of Directors
Business Development Centre, Inc.
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Business Development Centre, Inc. (the "Centre"), a component unit of the City of Lynchburg, Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements which collectively comprise the Centre's basic financial statements as listed in the table of contents.

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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. 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 account estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Business Development Centre, Inc. as of June 30, 2015 and 2014, and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2015, on our consideration of the Centre's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of the Centre's 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 the Centre's internal control over financial reporting and compliance.

Cheryl Beboet LLP

Lynchburg, Virginia
September 9, 2015

BUSINESS DEVELOPMENT CENTRE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Business Development Centre, Inc.'s (the "Centre") financial performance provides an overview of the Centre's financial activities for the year ended June 30, 2015. Please read this in conjunction with the financial statements.

Financial Highlights

- The Centre's Total Net Position at FY15 rose due to a significant number of new loans being made and the absorption of earnings generated during the year.
- In FY15 total liabilities increased due to an additional draw of available funds into the LEDA loan program to support a large new loan.
- The FY15 revenues of the Centre increased in the program income category, reflecting a continued tolerance for the risks associated with small business ownership by starting new business operations and taking on new debt obligations. The service income and miscellaneous income levels continued to fall, as the demand for auxiliary services continues to decline.
- Operating expenses in FY15 once again declined from the previous year with the largest savings coming from reduced utility and communications costs.
- The non-operating revenues generated in FY15 are from local financial institutions in support of the Centre's impact on the small business community.

Using this Annual Report

This annual report consists of several financial statements. The statements of net position and statements of revenues, expenses, and changes in net position provide information about the activities of the entire Centre operation.

The Statements of Net Position

The statement of net position reports information about the Centre as a whole and points to activities of the operation, which assist in determining the financial condition of the operation. This statement includes assets and liabilities presented using the accrual basis of accounting, which differs from the Centre's daily cash basis reporting. It should be noted that the Centre leases a facility owned by the City of Lynchburg for a nominal fee. According to the lease agreement, the Centre is responsible for the first \$1,500 per year for major repairs to the facility.

When reviewing the health of the Centre's statements of net position, one should consider the net change in each account category to determine the positive or negative impact on the overall operation. A recap of the Centre's statements of net position is presented as follows:

BUSINESS DEVELOPMENT CENTRE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Statements of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total assets	\$ <u>1,962,658</u>	\$ <u>1,803,021</u>	\$ <u>1,782,761</u>
Total liabilities	\$ <u>1,640,407</u>	\$ <u>1,507,824</u>	\$ <u>1,511,229</u>
Net position			
Net Investment in capital assets	\$ 2,507	\$ 3,358	\$ 4,210
Unrestricted	<u>319,744</u>	<u>291,839</u>	<u>267,322</u>
Total net position	\$ <u>322,251</u>	\$ <u>295,197</u>	\$ <u>271,532</u>
Total liabilities and net position	\$ <u>1,962,658</u>	\$ <u>1,803,021</u>	\$ <u>1,782,761</u>

At FY15, the total net position of the Centre increased \$27,054 or 9.2% from FY14. This increase is partially a result of increased income from \$83,715 (6.3%) in net new loans and control of expenses during FY15. Cash increased by \$83,554 through normal and early loan repayments.

The total net position of the Centre increased \$23,665 (8.7%) from FY13 to FY14. This increase is directly related to the impact of an \$81,468 or a 6.5% increase in net new loans made during the fiscal year. The negative impact on the cash accounts with the funding of the new loans was offset by the positive earnings at year-end.

AT FY15, total liabilities increased by \$132,583 (8.8%) largely due to an additional draw on LEDA funding for a large new loan in that program.

AT FY14, total liabilities were reduced by \$3,405 or 0.2% from FY13. This minor fluctuation in total liabilities reflects the fact that no new loan programs were introduced in FY14, and the operation has stabilized overall.

BUSINESS DEVELOPMENT CENTRE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues			
Rental income	\$ 173,346	\$ 172,160	\$ 149,749
Services income	4,028	5,012	7,642
Program income	58,460	52,030	46,563
Miscellaneous	<u>15,999</u>	<u>23,426</u>	<u>28,066</u>
Total operating revenues	<u>251,833</u>	<u>252,628</u>	<u>232,020</u>
Operating expenses			
Advertising	31	29	-
Equipment	1,234	2,193	-
Depreciation	851	851	851
Dues and memberships	440	210	364
Insurance	505	-	-
Employee benefits	-	-	1,743
Meals and entertainment	163	363	-
Miscellaneous	2,094	3,215	6,525
Office expenses, including telephone	35,737	38,891	40,622
Payroll taxes	8,503	8,408	11,326
Professional fees	6,692	6,541	6,312
Repairs and maintenance	19,527	16,008	18,648
Travel	946	786	1,928
Utilities	49,080	53,592	56,268
Wages and salaries	<u>108,226</u>	<u>107,126</u>	<u>140,476</u>
Total operating expenses	<u>234,029</u>	<u>238,213</u>	<u>285,063</u>
Operating income (loss)	17,804	14,415	(53,043)
Non-operating revenues			
Technical and management assistant grants	<u>9,250</u>	<u>9,250</u>	<u>79,946</u>
Change in net position	<u>\$ 27,054</u>	<u>\$ 23,665</u>	<u>\$ 26,903</u>

Operating revenues of the Centre during FY15 were nearly level overall with FY14. The small decrease in services income was made up in increased rental income. Likewise, while miscellaneous income fell by \$7,427 (primarily due to electric meter income ending the year at approximately 50% of FY14 levels), program income (from loan programs earnings) increased by \$6,430 which helped level out the impact.

Operating revenues of the Centre during FY14 rose \$20,608 or 8.9% from FY13. This increase was the result of a \$22,411 or 15% rise in rental revenues, which reflects the continued increase in tolerance for the risks associated with small business ownership, as well as a \$5,467 or 11.7% increase in program income, as the growth in new outstanding loans generated new interest and fee income. The service and miscellaneous income categories experienced a total dollar decline from FY13 of \$7,270, and represents a reduction in the demand for auxiliary services provided by the Centre.

BUSINESS DEVELOPMENT CENTRE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating expenses for FY15 declined modestly by \$4,184 or 1.8% from FY14. Increased costs in building and grounds maintenance were offset by reduced utility, office, and communications expenses. FY15 and FY14 are the first years presented here without the financial impact of the SBDC and are more directly comparable than FY13.

Operating expenses for FY14 declined overall by \$46,850 or 16.4% from FY13. This decline is largely due to the fact that FY13 included six months of operations for the SBDC program. The SBDC program was relocated to another host in January 2013 and salaries, office expenses, and other related expenses fell accordingly.

The FY15 non-operating revenues (grants from financial institutions) were level with FY14 grants.

The FY14 non-operating revenues were reduced \$70,696 or 88.4% from FY13 with the relocation of the SBDC program. Non-operating revenues in FY14 consist of local grants from financial institutions, which support the remaining programs at the Centre.

The change in net position in FY15 was \$3,389 or 14.3% better than FY14 and reflects the Centre's staff keeping control over costs.

The change in net position in FY14 was \$3,238 or 12% from FY13. This level of change reinforces the fact that the SBDC expenses and the SBDC non-operating revenues of FY13 were a direct offset, and that the operations of the BDC in FY14 have stabilized, even with a reduction in its programs.

Economic Factors and Next Year's Budget

Each year, the Centre prepares a comprehensive budget for the upcoming new fiscal year. While in most previous years the Centre budgeted based on a "break-even" scenario, the budgets prepared for FY15 and FY16 projected profits. The FY16 budget is conservatively based on existing leases and loans outstanding, and control over operating costs. It assumes that the economy will continue the current pattern of slow growth in our region thereby allowing individuals to consider small business ownership as an option for their future.

Economic trends and historical performance suggest that the programs of the Centre will continue to see an increase in demand as the economy continues to improve. It is anticipated that with continued recovery of the economy, the employment rate will also continue to recover. Many existing business operations are realizing new opportunities and are seeking to increase their output with new equipment and plant space. Additionally, more individuals are realizing new business opportunities. By providing a location for new businesses to start-up, existing businesses to expand, and loans to fund the business opportunities that are being realized, the Centre anticipates a continued financial recovery and on-going stabilization in FY16.

Contacting the Centre's Financial Management

This financial report is designed to provide taxpayers, customers, and creditors with a general overview of the Centre's finances and to show the Centre's accountability for the money it receives. If you have any questions about this report or require additional information, contact the Business Development Centre, Inc. at 147 Mill Ridge Road, Lynchburg, VA.

BUSINESS DEVELOPMENT CENTRE, INC.
STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 556,614	\$ 473,060
Accounts receivable and due from other governments	997	8,082
Notes receivable	1,402,121	1,318,406
Equipment, less accumulated depreciation of \$19,682 and \$18,831 for 2015 and 2014, respectively	2,507	3,358
Other assets	419	115
Total Assets	\$ 1,962,658	\$ 1,803,021
Liabilities		
Accounts payable	\$ 6,117	\$ 4,421
Accrued liabilities	17,980	14,956
Amounts due to City of Lynchburg	125,000	125,000
Amounts due to Economic Development Administration	495,000	495,000
Amounts due to Lynchburg Economic Development Authority	836,060	707,000
Amounts due to Lynchburg Area Development Corporation	115,500	115,500
Amounts due to Virginia Enterprise Initiative	40,000	40,000
Security deposits	4,750	5,250
Other liabilities	-	697
Total Liabilities	1,640,407	1,507,824
Net position		
Net investment in capital assets	2,507	3,358
Unrestricted	319,744	291,839
Total Net Position	322,251	295,197
Total Liabilities and Net Position	\$ 1,962,658	\$ 1,803,021

BUSINESS DEVELOPMENT CENTRE, INC.**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION***YEARS ENDED JUNE 30, 2015 AND 2014*

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Rental income	\$ 173,346	\$ 172,160
Services income	4,028	5,012
Program income	58,460	52,030
Miscellaneous	15,999	23,426
	<u>251,833</u>	<u>252,628</u>
Total Operating Revenues		
	<u>251,833</u>	<u>252,628</u>
Operating Expenses:		
Advertising	31	29
Capital outlay, equipment	1,234	2,193
Depreciation	851	851
Dues and memberships	440	210
Insurance	505	-
Meals and entertainment	163	363
Miscellaneous	2,094	3,215
Office expenses, including telephone	35,737	38,891
Payroll taxes	8,503	8,408
Professional fees	6,692	6,541
Repairs and maintenance	19,527	16,008
Travel	946	786
Utilities	49,080	53,592
Wages and salaries	108,226	107,126
	<u>234,029</u>	<u>238,213</u>
Total Operating Expenses		
	<u>234,029</u>	<u>238,213</u>
Operating Income	<u>17,804</u>	<u>14,415</u>
Non-Operating Revenues:		
Donations and grants:		
Technical and management assistance grants	9,250	9,250
	<u>9,250</u>	<u>9,250</u>
Total Non-Operating Revenues		
	<u>9,250</u>	<u>9,250</u>
Change in net position	27,054	23,665
Net position, beginning of year	295,197	271,532
	<u>295,197</u>	<u>271,532</u>
Net Position, end of year	<u>\$ 322,251</u>	<u>\$ 295,197</u>

The accompanying notes to the financial statements are an integral part of these statements.

BUSINESS DEVELOPMENT CENTRE, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 261,766	\$ 252,604
Cash paid for goods and services	(123,769)	(129,818)
Cash paid to employees	(109,038)	(108,229)
Cash received to fund loan pools	129,060	-
Principal repayments	368,285	469,032
New loans disbursed	(452,000)	(550,500)
	<u>74,304</u>	<u>(66,911)</u>
Net cash provided by (used in) operating activities	74,304	(66,911)
Cash flows from non-capital financing activities:		
Technical and management assistance grants	<u>9,250</u>	<u>9,250</u>
Net increase (decrease) in cash	83,554	(57,661)
Cash, beginning of year	<u>473,060</u>	<u>530,721</u>
Cash, end of year	<u>\$ 556,614</u>	<u>\$ 473,060</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	<u>\$ 17,804</u>	<u>\$ 14,415</u>
Adjustments to reconcile operating surplus to net cash provided by (used in) operating activities:		
Depreciation	851	851
Change in assets and liabilities:		
Loan receivable programs transactions:		
Principal repayments plus loan write-offs	368,285	469,032
New loans disbursed	(452,000)	(550,500)
Decrease in accounts receivable	7,085	2,670
(Increase) decrease in other asset	(304)	25
Increase (decrease) in accounts payable	1,696	(605)
Increase (decrease) in accrued liabilities	3,024	(3,888)
Increase (decrease) in other liabilities and security deposits	(1,197)	1,089
Increase in due to City, EDA, LEDA, LADC	<u>129,060</u>	<u>-</u>
Total adjustments	<u>56,500</u>	<u>(81,326)</u>
Net cash provided by (used in) operating activities	<u>\$ 74,304</u>	<u>\$ (66,911)</u>

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies

Organization and Purpose – Business Development Centre, Inc. (the “Centre”), a component unit of the City of Lynchburg, Virginia (the “City”), provides business advisory services to small businesses in the Central Virginia area; operates the Business Development Centre, a business incubator; and provides certain financing for qualifying businesses under the U.S. Department of Commerce Economic Development Administration’s (“EDA”) revolving loan fund program. The Centre also administers other nonfederal loan programs. The City accounts for the Centre as a discretely presented component unit. The Centre’s significant accounting policies are described as follows.

Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The “proprietary fund” method of accounting is used whereby the operations of the Centre are accounted for as an “enterprise fund.” Accordingly, the operations of the Centre are recorded on the accrual basis of accounting. Under this method, revenues from rental income and other revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

Cash and cash equivalents – Cash and cash equivalents consist of highly liquid temporary investments with maturities of three months or less from date of acquisition.

Receivables – Accounts and notes receivable are valued at net realizable value. An allowance for doubtful accounts, if necessary, is recorded against the receivable account balance to reduce the balance to net realizable value. Notes receivable are written off when management believes, after considering economic conditions, business conditions, and collection efforts, that the collection is doubtful.

Equipment and Fixtures – Equipment and fixtures are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the equipment and fixtures which varies from 3 to 15 years. The Centre’s capitalization level is \$2,500.

Compensated Absences – The Centre’s employees accumulate vacation time depending on their length of service. All outstanding vacation time is accrued as earned and is payable upon termination of employment. Sick leave accumulates based on length of service but does not vest to employees upon termination.

Revenues – Operating revenues are rental income from renting office and manufacturing space, charges for various utilities and shared office expenses, and program fees. Non-operating revenues are donations and grants received.

Income Taxes – The Internal Revenue Service has ruled that the Centre is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Management believes that the Centre continues to satisfy the requirements of a tax-exempt organization at June 30, 2015 and 2014. Management has evaluated all tax positions that could have a significant effect on the financial statements and determined the Centre had no uncertain income tax positions at June 30, 2015 and 2014. The Centre is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for tax years prior to the year ended June 30, 2012.

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.

Subsequent Events – Subsequent events have been evaluated through September 9, 2015, which is the date the financial statements were available to be issued. No transactions requiring disclosures have occurred through this date.

Note 2—Cash balances

All cash of the Centre is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et.seq. of the Code of Virginia or covered by federal depository insurance. At June 30, 2015 and 2014, the Centre has \$556,614 and \$473,060, respectively, in bank deposits.

Note 3—Accounts receivable and due from other governments

Accounts receivable and due from other governments at June 30, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Amounts due from tenants	\$ 496	\$ 4,880
Miscellaneous	501	3,202
	<u>\$ 997</u>	<u>\$ 8,082</u>

There was no allowance for doubtful accounts at June 30, 2015 or 2014.

Note 4—Notes receivable

All of the notes receivable consist of loans administrated by the Centre from (1) a loan pool jointly funded by the EDA and the City of Lynchburg and (2) and other nonfederal loan programs. The notes are collateralized by various collateral of the borrowers and require monthly payments of interest and principal. The repayment terms range from 6 months to 120 months with interest rates from 5% to 8%, depending upon the loan program. The revolving EDA loan fund program is designed to provide loans to certain qualifying businesses based on guidelines from the EDA. The Virginia Enterprise Initiative loan program (“VEI”) and the Centre loan program are designed to provide loans to eligible small business concerns and are also included in the operating fund. The Lynchburg Economic Development Authority (“LEDA”) loan program and the Lynchburg Area Development Corporation (“LADC”) loan program are designated to promote employment opportunities in the local area by offering businesses the opportunity to access capital through moderately priced loans.

BUSINESS DEVELOPMENT CENTRE, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 4—Notes receivable (continued)

Activity in the loan programs during the years ended June 30, 2015 and 2014, was as follows:

	Revolving Loan Program	VEI Loan Program	BDC Loan Program	LADC Loan Program	LEDA Loan Program	Total
Balance, July 1, 2013	\$ 533,505	\$ 66,325	\$ 14,066	\$ 103,500	\$ 519,542	\$ 1,236,938
Principal repayments	(85,784)	(27,743)	(17,646)	(14,669)	(323,190)	(469,032)
New loans disbursed	133,500	-	17,000	-	400,000	550,500
Balance, June 30, 2014	581,221	38,582	13,420	88,831	596,352	1,318,406
Principal repayments	(237,929)	(22,297)	(9,510)	(14,976)	(83,573)	(368,285)
New loans disbursed	115,000	-	87,000	-	250,000	452,000
Balance, June 30, 2015	<u>\$ 458,292</u>	<u>\$ 16,285</u>	<u>\$ 90,910</u>	<u>\$ 73,855</u>	<u>\$ 762,779</u>	<u>\$ 1,402,121</u>

Note 5—Equipment and fixtures

Property and equipment consists of the following:

	2015			
	Beginning Balance	Additions	Retirements	Ending Balance
Building improvements and furnishings	\$ 22,189	\$ -	\$ -	\$ 22,189
Accumulated depreciation	(18,831)	(851)	-	(19,682)
Net building improvements and furnishings	<u>\$ 3,358</u>	<u>\$ (851)</u>	<u>\$ -</u>	<u>\$ 2,507</u>
	2014			
	Beginning Balance	Additions	Retirements	Ending Balance
Building improvements and furnishings	\$ 22,189	\$ -	\$ -	\$ 22,189
Accumulated depreciation	(17,979)	(852)	-	(18,831)
Net building improvements and furnishings	<u>\$ 4,210</u>	<u>\$ (852)</u>	<u>\$ -</u>	<u>\$ 3,358</u>

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 6—Related-party transactions

The Centre is party to several agreements with the City. Those agreements involve the Centre in the following:

- leasing the Business Development Centre building at a nominal amount,
- assuming the leases made between the City and tenants of the Business Development Centre building,
- assuming the operations of the Centre,
- administering the revolving loan fund program as a subgrantee of the City, and
- providing certain small business advisory services under subgrantee agreements with the City.

As part of the operating agreement, the City agrees to advance operating funds to the Centre to cover working capital needs. The City has agreed to provide local matching funds under the revolving loan fund program. The amounts due the City from the revolving loan fund for the years ended June 30, 2015 and 2014, were \$125,000 for each year.

Note 7—Leases

Lessor – The Centre is the lessor of office and manufacturing facilities in the Business Development Centre building under various operating lease agreements. The lease agreements have terms from one month to three years. At June 30, 2015, the future minimum lease payments due under operating leases with initial or remaining noncancellable operating lease terms totaled \$169,500 due during the year ending June 30, 2015. All the leases expire on or before June 30, 2016.

Lessee – The Centre leases certain office equipment and a building under operating lease agreements. The building is leased from the City at a nominal amount. These lease agreements have terms from one month to three years. At June 30, 2015, future minimum lease payments due under operating leases with initial or remaining noncancelable operating lease terms in excess of one year are scheduled as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 1,882
	<u>\$ 1,882</u>

The amounts shown above do not include contingent rentals of up to \$1,500 per year for the building, to be paid as the first \$1,500 of repairs and maintenance on the building. The City pays for additional major repairs and maintenance above \$1,500. The City also provides insurance coverage for the Centre's building. Rent expense for the years ended June 30, 2015 and 2014 was \$-0-.

Note 8—Retirement plan

In April 1995, the Centre established an Internal Revenue Code Section 403(b) retirement plan for all eligible employees. The plan permits the Centre to make matching discretionary contributions. The investments for the plan are in a mutual fund. The Centre's contribution to the plan for the years ended June 30, 2015 and 2014, was \$-0-.

BUSINESS DEVELOPMENT CENTRE, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 9—Credit risk and economic dependency

At June 30, 2015 and 2014, the Centre's accounts and notes receivable were from small businesses located in the Central Virginia area.

The Centre derives substantially all of its revenues from donations and grants from state and local funding sources, federal grants, and charges for services to its tenants and clients who are located in the Central Virginia area. The Centre is also highly dependent upon the City for leased property and sources of grant funding.

COMPLIANCE SECTION

**Report of Independent Auditor 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***

Board of Directors
Business Development Centre, Inc.
Lynchburg, Virginia

We have audited, in accordance with the 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 financial statements of the Business Development Centre, Inc. (the "Centre"), a component unit of the City of Lynchburg, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Centre's basic financial statements, and have issued our report thereon dated September 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Centre'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Centre's internal control. Accordingly, we do not express an opinion on the effectiveness of the Centre'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. 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 the Centre's 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 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*.

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

Cheryl Bebaert LLP

Lynchburg, Virginia
September 9, 2015

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Business Development Centre, Inc.
Lynchburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Business Development Centre, Inc.'s (the "Centre") compliance with the types of compliance requirement described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Centre's major federal programs for the year ended June 30, 2015. The Centre's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Centre'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Centre'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 the Centre's compliance.

Opinion on Each Major Federal Program

In our opinion, the Centre complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Centre 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 the Centre'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 OMB Circular A-133, 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 the Centre's internal control over compliance.

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cheryl Behaert LLP

Lynchburg, Virginia
September 9, 2015

BUSINESS DEVELOPMENT CENTRE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

I. Summary of Auditor's Results

- A. An unmodified opinion was issued on the financial statements of Business Development Centre, Inc. ("the Centre").
- B. Our audit of the financial statements disclosed no significant deficiencies in internal control.
- C. Our audit of the financial statements disclosed no instances of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the Centre's major program disclosed no material weaknesses or significant deficiencies in internal controls over major program.
- E. An unmodified opinion was issued on the Centre's compliance with the types of compliance requirements applicable to its major program.
- F. Our audit disclosed no audit findings which relate to federal awards.
- G. The Centre's only major program was the Economic Development Administration Revolving Loan Program - CFDA 11.307.
- H. The threshold for distinguishing Type A and B programs was \$300,000.
- I. The Centre was determined to be a low-risk auditee.

II. Findings - Financial Statement Audit

None

III. Findings and Questioned Costs - Major Federal Award Programs Audit

None

IV. Prior Year's Findings

There were none.

BUSINESS DEVELOPMENT CENTRE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

<u>Grant Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Commerce		
Economic Development Administration		
Revolving Loan Fund	11.307	<u>\$ 516,212</u>

Note A – Revolving Loan Fund

The Centre administers the Economic Development Administration Special Economic Adjustment Assistance Revolving Loan Fund Program CFDA 11.307 (01-49-03245) on behalf of the City of Lynchburg, Virginia. This program is a major program of the Centre. Loans under this program are subject to various restrictions as determined by the Economic Development Administration.

The Centre received the funds indicated as follows:

	<u>Federal</u>	<u>State</u>	<u>Local</u>
Amount received through June 30, 1993	\$ 45,000	\$ -	\$ 24,000
Amount received year ended June 30, 1994	127,836	-	33,612
Amount received year ended June 30, 1995	44,027	-	14,676
Amount received year ended June 30, 1996	108,201	-	36,067
Bad debt charge-offs for year ended June 30, 1996	(3,005)	-	(1,002)
Amount received year ended June 30, 1997	10,268	-	3,423
Recapitalized from earnings for year ended June 30, 1997	3,005	-	1,002
Amount received year ended June 30, 1998	<u>159,668</u>	<u>40,000</u>	<u>13,222</u>
Amounts due	<u>\$ 495,000</u>	<u>\$ 40,000</u>	<u>\$ 125,000</u>

In March 2013 the Department of Commerce issued in its A-133 Compliance Supplement guidance on calculating federal awards expended for determining when an audit is required under OMB Circular A-133. For revolving loan funds ("RLF") grants the calculation of federal awards expended for determining a Type A program shall include (1) the balance of RLF loans outstanding at the end of the fiscal year, plus (2) cash and investment balance in the RLF at the end of the fiscal year, and (3) administrative expenses paid out of RLF income during the fiscal year. Although the Centre did not receive any RLF monies during the current year the above mentioned method caused the RLF to be a considered a major program. The \$516,212 in federal expenditures as shown above is calculated as follows. The \$495,000 of federal funds as shown above was 75% of the initial funding of the RLF. The 75% times the amounts from (1), (2), and (3) above of \$688,282 equals \$516,212.

Note: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.