

BUSINESS DEVELOPMENT CENTRE, INC.
(A Component Unit of the City of Lynchburg, VA)
(A Nonprofit Organization)

FINANCIAL REPORT

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors of the
Business Development Centre, Inc.
Lynchburg, Virginia

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Centre's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Centre, as of June 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. 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 the Centre and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility 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 the Centre's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Report on the Audit of the Financial Statements (Continued)

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 and *Government 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 for 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 the Centre'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 the Centre'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 that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Omission of this information does not have an impact on our opinion on the basic financial statements and is not a required component of the basic financial statements, themselves, or the related notes to the financial statements. Such missing 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2023 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 solely 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 24, 2023

BUSINESS DEVELOPMENT CENTRE, INC.**STATEMENTS OF NET POSITION**
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,523,692	\$ 1,588,372
Other assets	<u>453</u>	<u>275</u>
Total current assets	<u>1,524,145</u>	<u>1,588,647</u>
CAPITAL ASSETS		
Furniture and equipment	24,375	24,375
Accumulated depreciation	<u>(24,375)</u>	<u>(24,375)</u>
Total capital assets	<u>-</u>	<u>-</u>
NOTES RECEIVABLE (Note 2)	<u>543,569</u>	<u>461,102</u>
Total assets	<u>2,067,714</u>	<u>2,049,749</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	3,340	8,380
Accrued liabilities	<u>20,334</u>	<u>23,640</u>
Total current liabilities	<u>23,674</u>	<u>32,020</u>
NONCURRENT LIABILITIES		
Due to City of Lynchburg (Note 3)	125,000	125,000
Due to Economic Development Administration	495,000	495,000
Due to Lynchburg Economic Development Authority (Note 2)	778,519	778,519
Due to Business Development Center	40,000	40,000
Security deposits	<u>4,250</u>	<u>3,750</u>
Total noncurrent liabilities	<u>1,442,769</u>	<u>1,442,269</u>
Total liabilities	<u>1,466,443</u>	<u>1,474,289</u>
NET POSITION		
Unrestricted	<u>601,271</u>	<u>575,460</u>
Total net position	<u>\$ 601,271</u>	<u>\$ 575,460</u>

The Notes to Financial Statements are an integral part of these statements.

BUSINESS DEVELOPMENT CENTRE, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Rental income	\$ 224,078	\$ 225,325
Services income	1,876	2,295
Program income	26,227	34,152
Miscellaneous	<u>29,226</u>	<u>9,200</u>
Total operating revenue	<u>281,407</u>	<u>270,972</u>
OPERATING EXPENSES		
Wages and salaries	101,099	90,104
Payroll taxes	8,333	6,355
Contracted services	758	50
Dues and memberships	405	485
Miscellaneous	578	1,105
Office expenses, including telephone	43,085	43,047
Professional fees	14,259	17,734
Repairs and maintenance	23,820	24,957
Utilities	<u>63,259</u>	<u>61,431</u>
Total operating expenses	<u>255,596</u>	<u>245,268</u>
Operating income	<u>25,811</u>	<u>25,704</u>
Change in net position	25,811	25,704
NET POSITION AT JULY 1	<u>575,460</u>	<u>549,756</u>
NET POSITION AT JUNE 30	<u>\$ 601,271</u>	<u>\$ 575,460</u>

The Notes to Financial Statements are an integral part of these statements.

BUSINESS DEVELOPMENT CENTRE, INC.**STATEMENTS OF CASH FLOWS**
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Cash received from tenants	\$ 281,907	\$ 271,551
Cash paid for goods and services	(151,382)	(144,828)
Cash paid to employees	(112,738)	(99,103)
Principal repayments	92,533	470,036
New loans disbursed	(175,000)	-
	<u>(64,680)</u>	<u>497,656</u>
Net cash provided by (used in) operating activities	(64,680)	497,656
Net increase (decrease) in cash and cash equivalents	(64,680)	497,656
CASH AND CASH EQUIVALENTS		
Beginning at July 1	<u>1,588,372</u>	<u>1,090,716</u>
Ending at June 30	<u>\$ 1,523,692</u>	<u>\$ 1,588,372</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 25,811	\$ 25,704
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Loan recovery	-	2,459
Loan receivable programs transactions:		
Principal repayments	92,533	470,036
New loans disbursed	(175,000)	-
(Increase) decrease in:		
Accounts receivable	-	829
Other assets	(178)	164
Increase (decrease) in:		
Accounts payable	(5,040)	1,358
Accrued liabilities	(3,306)	(2,644)
Security deposits	500	(250)
	<u>(64,680)</u>	<u>497,656</u>
Net cash provided by (used in) operating activities	<u>\$ (64,680)</u>	<u>\$ 497,656</u>

The Notes to Financial Statements are an integral part of these statements.

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 1. Organization and Significant Accounting Policies

Organization and purpose

Business Development Centre, Inc. (the “Centre”), a nonprofit organization, 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.

Measurement focus and basis of accounting

Despite being a nonprofit organization, due to the Centre’s status as a component unit of the City, the Centre follows accounting guidance issued by the Governmental Accounting Standards Board for state and local governments.

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.

The Centre distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Centre’s principal ongoing operations. Operating revenues are rental income from renting office and manufacturing space, charges for various utilities and shared office expenses, and program fees. Nonoperating revenues are donations and grants received. All other revenues and expenses are reported as nonoperating revenues and expenses.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid temporary investments with original maturities of three months or less from date of acquisition. The Centre maintains substantially all of its cash in a regional bank and at times balances exceed the threshold insured by the Federal Deposit Insurance Corporation (FDIC).

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.

(Continued)

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 1. Organization and Significant Accounting Policies (Continued)

Capital assets

Capital assets acquired are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives which range from 3 to 15 years. Leasehold improvements, where applicable, are depreciated over the shorter of the useful life of the asset or the remaining term of the lease. Lease term includes all reasonably assured renewals. The Centre's capitalization threshold is \$2,500.

Restricted resources/net position

When both restricted and unrestricted resources are available for use, it is the Centre's policy to use restricted resources first when allowed.

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. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

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*.

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 October 24, 2023, which is the date the financial statements were available to be issued. No transactions requiring disclosures have occurred through this date.

(Continued)

BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2023

Note 2. 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) other nonfederal loan programs. The notes are collateralized by collateral of the borrowers and require monthly payments of interest and principal. The repayment terms range from 6 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 Lynchburg Economic Development Authority (“LEDA”) Loan Program is designated to promote employment opportunities in the local area by offering businesses the opportunity to access capital through moderately priced loans.

When LEDA notes are impaired or written down due to estimates of uncollectability an offsetting write-down of the amount due to the LEDA is also recorded. This offsetting write-down is due to the nature of these loans as pass-through transactions for the Centre.

On May 19, 2022, LEDA decided to close the Revolving Loan Fund administered by BDC. The Centre will continue to collect on the one outstanding loan issued through this fund. Ultimately, the Centre will return the \$778,519 provided by LEDA. Subsequent to year end, the Centre returned \$513,811 of those funds and will return the remainder once loans are paid in full.

Activity in the loan programs during the years ended June 30, 2023 and 2022, was as follows:

	Revolving Loan Program	Centre Loan Program	VEW Loan Program	LEDA Loan Program	Total
Balance, July 1, 2021	\$ 366,024	\$ 110,040	\$ -	\$ 455,074	\$ 931,138
Principal repayments	(249,618)	(55,436)	-	(164,982)	(470,036)
Balance, July 1, 2022	116,406	54,604	-	290,092	461,102
Principal repayments	(33,089)	(40,585)	-	(18,859)	(92,533)
New loans disbursed	150,000	25,000	-	-	175,000
Balance, June 30, 2023	<u>\$ 233,317</u>	<u>\$ 39,019</u>	<u>\$ -</u>	<u>\$ 271,233</u>	<u>\$ 543,569</u>

Note 3. 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.
- Providing certain small business advisory services under subgrantee agreements with the City.

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BUSINESS DEVELOPMENT CENTRE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

Note 3. Related Party Transactions (Continued)

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 to the City from the revolving loan fund was \$125,000 at June 30, 2023 and 2022.

Note 4. 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 one year. At June 30, 2023, the future minimum lease payments due to the Centre under operating leases with initial or remaining noncancellable operating lease terms total \$154,190 for the year ending June 30, 2024. The leases have expiration dates ranging from September 30, 2023 to August 31, 2024.

Lessee

The Centre leases a building from the City at a nominal amount.

The Centre pays contingent rentals of up to \$1,500 per year for the building, to be paid in the form 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 at no charge. There was no building rent expense for the years ended June 30, 2023 and 2022.

Note 5. 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 had no contributions to the plan for the years ended June 30, 2023 and 2022.

Note 6. Credit Risk and Economic Dependency

At June 30, 2023 and 2022, 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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the Board of Directors of the
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, 2023, and the related notes to the financial statements, which collectively comprise the Centre's basic financial statements and have issued our report thereon dated October 24, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 or significant deficiencies may exist that have not been identified.**

Report on 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 financial statements. 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 Centre'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 Centre's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 24, 2023