

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

**FINANCIAL REPORT**

**June 30, 2021**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the 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, 2021 and 2020, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Report on the Financial Statements (Continued)**

### *Opinion*

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, 2021 and 2020, 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.

### **Other Matters**

#### *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 September 17, 2021 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  
September 17, 2021

**BUSINESS DEVELOPMENT CENTRE, INC.****STATEMENTS OF NET POSITION****June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,090,716	\$ 767,023
Accounts receivable	829	822
Other assets	439	439
	<u>1,091,984</u>	<u>768,284</u>
Total current assets		
<b>CAPITAL ASSETS</b>		
Furniture and equipment	24,375	24,375
Accumulated depreciation	(24,375)	(23,938)
	<u>-</u>	<u>437</u>
Total capital assets		
<b>NOTES RECEIVABLE (Note 2)</b>	<u>931,138</u>	<u>1,203,192</u>
Total assets	<u>2,023,122</u>	<u>1,971,913</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	7,022	5,930
Accrued liabilities	26,284	24,822
	<u>33,306</u>	<u>30,752</u>
Total current liabilities		
<b>NONCURRENT LIABILITIES</b>		
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)	776,060	776,060
Due to Virginia Enterprise Initiative	40,000	40,000
Security deposits	4,000	6,000
	<u>1,440,060</u>	<u>1,442,060</u>
Total noncurrent liabilities		
Total liabilities	<u>1,473,366</u>	<u>1,472,812</u>
<b>NET POSITION</b>		
Net investment in capital assets	-	437
Unrestricted	549,756	498,664
	<u>\$ 549,756</u>	<u>\$ 499,101</u>
Total net position		

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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Rental income	\$ 246,699	\$ 244,223
Services income	2,951	3,392
Program income	51,109	52,099
Miscellaneous	<u>9,498</u>	<u>9,144</u>
Total operating revenue	<u>310,257</u>	<u>308,858</u>
OPERATING EXPENSES		
Wages and salaries	112,951	110,089
Payroll taxes	8,892	8,356
Contracted services	250	388
Depreciation	437	438
Dues and memberships	564	485
Meals and entertainment	100	307
Miscellaneous	1,821	2,385
Office expenses, including telephone	40,438	36,429
Professional fees	7,395	7,052
Repairs and maintenance	30,267	14,963
Utilities	<u>56,487</u>	<u>50,004</u>
Total operating expenses	<u>259,602</u>	<u>230,896</u>
Operating income	<u>50,655</u>	<u>77,962</u>
Change in net position	50,655	77,962
NET POSITION AT JULY 1	<u>499,101</u>	<u>421,139</u>
NET POSITION AT JUNE 30	<u><u>\$ 549,756</u></u>	<u><u>\$ 499,101</u></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, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from tenants	\$ 308,250	\$ 309,410
Cash paid for goods and services	(136,230)	(112,315)
Cash paid to employees	(120,381)	(108,446)
Principal repayments	349,054	269,138
New loans disbursed	(77,000)	(220,000)
	<u>323,693</u>	<u>137,787</u>
Net cash provided by operating activities	<u>323,693</u>	<u>137,787</u>
Net increase in cash and cash equivalents	323,693	137,787
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	<u>767,023</u>	<u>629,236</u>
Ending at June 30	<u><u>\$ 1,090,716</u></u>	<u><u>\$ 767,023</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 50,655	\$ 77,962
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	437	438
Loan receivable programs transactions:		
Principal repayments	349,054	269,138
New loans disbursed	(77,000)	(220,000)
(Increase) decrease in:		
Accounts receivable	(7)	552
Other assets	-	(313)
Increase (decrease) in:		
Accounts payable	1,092	11
Accrued liabilities	1,462	9,999
Security deposits	(2,000)	-
	<u>323,693</u>	<u>137,787</u>
Net cash provided by operating activities	<u><u>\$ 323,693</u></u>	<u><u>\$ 137,787</u></u>

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

## **BUSINESS DEVELOPMENT CENTRE, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2021**

#### **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 expense 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. At June 30, 2021 and 2020, an allowance of \$60,000 was recorded due to the status of one loan. In addition, the amount due to Lynchburg Economic Development Authority was written down by an equal amount due to the nature of the Centre’s relationship with the EDA as a pass-through entity, as further discussed in Note 2.

(Continued)



**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2021**

**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 of 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 September 17, 2021, which is the date the financial statements were available to be issued. No transactions requiring disclosures have occurred through this date.

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## BUSINESS DEVELOPMENT CENTRE, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2021

#### Note 2. Notes Receivable

All of the notes receivable consist of loans administered 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 Virginia Enterprise Initiative Loan Program ("VEI") and the Centre Loan Program are designed to provide loans to eligible small business concerns. 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.

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.

Activity in the loan programs during the years ended June 30, 2021 and 2020, was as follows:

	<b>Revolving Loan Program</b>	<b>VEI Loan Program</b>	<b>Centre Loan Program</b>	<b>VEW Loan Program</b>	<b>LEDA Loan Program</b>	<b>Total</b>
Balance, July 1, 2019	\$ 630,596	\$ -	\$ 19,361	\$ 38,935	\$ 563,438	\$ 1,252,330
Principal repayments	(168,397)	-	(20,155)	(6,377)	(74,209)	(269,138)
New loans disbursed	165,000	-	55,000	-	-	220,000
Balance, June 30, 2020	627,199	-	54,206	32,558	489,229	1,203,192
Principal repayments	(261,175)	-	(21,166)	(32,558)	(34,155)	(349,054)
New loans disbursed	-	-	77,000	-	-	77,000
Balance, June 30, 2021	<u>\$ 366,024</u>	<u>\$ -</u>	<u>\$ 110,040</u>	<u>\$ -</u>	<u>\$ 455,074</u>	<u>\$ 931,138</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.

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 was \$125,000 at June 30, 2021 and 2020.

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**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2021**

**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 three years. At June 30, 2021, the future minimum lease payments due to the Centre under operating leases with initial or remaining noncancellable operating lease terms total \$130,990 for the year ending June 30, 2022 and \$850 for the year ending June 30, 2023. All leases expire on or before July 31, 2022.

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, 2021, future minimum lease payments due under operating leases with initial or remaining noncancellable operating lease terms in excess of one year are scheduled as follows:

<b>Year Ending June 30,</b>	
<b>2022</b>	<b>\$ <u>2,358</u></b>

The amount shown above does not include 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, 2021 and 2020.

**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, 2021 and 2020.

**Note 6. Credit Risk and Economic Dependency**

At June 30, 2021 and 2020, 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.

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**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2021**

**Note 7. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following Statement which is not yet effective. GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement was originally effective for the year ending June 30, 2021. The effective date for this standard has been delayed until the year ending June 30, 2022 due to the COVID-19 pandemic.

Management has not determined the effects of this new GASB Statement may have on prospective financial statements.

**Note 8. COVID-19**

In December 2019, a novel strain of coronavirus (COVID-19) was reported and the World Health Organization (WHO) declared the outbreak a "public health emergency of international concern" on January 30, 2020. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Centre's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation, however, the outbreak has not had any significant impact on the Centre's financial condition, liquidity, or operations.

## **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  
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, 2021, 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 17, 2021.

**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 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 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  
September 17, 2021