

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

**FINANCIAL REPORT**

**June 30, 2019**

## CONTENTS

Page

### FINANCIAL SECTION

Independent Auditor's Report .....	1
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### FINANCIAL STATEMENTS

Statements of Net Position .....	3
Statements of Revenues, Expenses, and Changes in Net Position .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6

### 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 <i>Government Auditing Standards</i> .....	10
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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, 2019 and 2018, 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, 2019 and 2018, 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 October 4, 2019 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 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 4, 2019

**BUSINESS DEVELOPMENT CENTRE, INC.****STATEMENTS OF NET POSITION****June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 629,236	\$ 989,238
Accounts receivable	1,374	1,029
Other assets	126	97
Total current assets	630,736	990,364
<b>CAPITAL ASSETS</b>		
Furniture and equipment	24,375	24,375
Accumulated depreciation	(23,500)	(23,063)
	875	1,312
<b>NOTES RECEIVABLE (Note 2)</b>	1,252,330	1,045,009
Total assets	1,883,941	2,036,685
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	5,919	5,019
Accrued liabilities	14,823	18,687
Total current liabilities	20,742	23,706
<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	836,060
Due to Lynchburg Area Development Corporation	-	115,500
Due to Virginia Enterprise Initiative	40,000	40,000
Security deposits	6,000	5,250
Total noncurrent liabilities	1,442,060	1,616,810
Total liabilities	1,462,802	1,640,516
<b>NET POSITION</b>		
Net investment in capital assets	875	1,312
Unrestricted	420,264	394,857
Total net position	\$ 421,139	\$ 396,169

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Rental income	\$ 180,966	\$ 151,831
Services income	3,369	4,180
Program income	56,063	52,532
Miscellaneous	9,902	6,143
	<u>250,300</u>	<u>214,686</u>
Total operating revenue		
OPERATING EXPENSES		
Wages and salaries	103,032	95,656
Payroll taxes	7,833	7,766
Advertising	1,892	286
Contracted services	2,220	1,768
Depreciation	437	1,243
Dues and memberships	85	420
Meals and entertainment	429	832
Miscellaneous	1,449	2,956
Office expenses, including telephone	33,123	34,368
Professional fees	6,726	6,400
Repairs and maintenance	28,189	10,753
Utilities	42,915	39,944
	<u>228,330</u>	<u>202,392</u>
Total operating expenses		
Operating income	<u>21,970</u>	<u>12,294</u>
NONOPERATING REVENUES		
Donations and grants	<u>3,000</u>	<u>5,000</u>
Total nonoperating revenues	<u>3,000</u>	<u>5,000</u>
Change in net position	24,970	17,294
NET POSITION AT JULY 1	<u>396,169</u>	<u>378,875</u>
NET POSITION AT JUNE 30	<u>\$ 421,139</u>	<u>\$ 396,169</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from tenants	\$ 250,705	\$ 214,075
Cash paid for goods and services	(116,157)	(99,097)
Cash paid to employees	(114,729)	(105,786)
Principal repayments	295,679	320,465
New loans disbursed	(563,000)	-
	<u>(247,502)</u>	<u>329,657</u>
Net cash provided by (used in) operating activities		
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Donations and grants	<u>3,000</u>	<u>5,000</u>
<b>CAPITAL FINANCING ACTIVITIES</b>		
Repayment of amounts due to Lynchburg Area Development Corporation	<u>(115,500)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(360,002)	334,657
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning at July 1	<u>989,238</u>	<u>654,581</u>
Ending at June 30	<u><u>\$ 629,236</u></u>	<u><u>\$ 989,238</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income	\$ 21,970	\$ 12,294
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	437	1,243
Loan receivable programs transactions:		
Principal repayments	295,679	320,465
New loans disbursed	(563,000)	-
(Increase) decrease in:		
Accounts receivable	(345)	(111)
Other assets	(29)	-
Increase (decrease) in:		
Accounts payable	900	(1,370)
Accrued liabilities	(3,864)	(2,364)
Security deposits	750	(500)
	<u>\$ (247,502)</u>	<u>\$ 329,657</u>
Net cash provided by (used in) operating activities		
<b>SCHEDULE OF NON-CASH ACTIVITIES</b>		
Adjustment to allowance for bad debts and amount due to Lynchburg Economic Development Authority	<u><u>\$ 60,000</u></u>	<u><u>\$ -</u></u>

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

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

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

#### **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

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, 2019, 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. No such allowance was recorded at June 30, 2018.

##### 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.

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**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019**

**Note 1. Organization and Significant Accounting Policies (Continued)**

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 October 4, 2019, which is the date the financial statements were available to be issued. No transactions requiring disclosures have occurred through this date.

**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 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, such as was noted in the current year, 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.

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**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 2. Notes Receivable (Continued)**

Activity in the loan programs during the years ended June 30, 2019 and 2018, 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, 2017	\$ 639,777	\$ 2,066	\$ 50,665	\$ -	\$ 672,966	\$ 1,365,474
Principal repayments	(250,501)	(1,050)	(13,587)	-	(55,327)	(320,465)
Balance, June 30, 2018	389,276	1,016	37,078	-	617,639	1,045,009
Principal repayments	(102,180)	(1,016)	(17,717)	(565)	(174,201)	(295,679)
New loans disbursed	343,500	-	-	39,500	180,000	563,000
Allowance for bad debts	-	-	-	-	(60,000)	(60,000)
Balance, June 30, 2019	<u>\$ 630,596</u>	<u>\$ -</u>	<u>\$ 19,361</u>	<u>\$ 38,935</u>	<u>\$ 563,438</u>	<u>\$ 1,252,330</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, 2019 and 2018.

**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, 2019, the future minimum lease payments due to the Centre under operating leases with initial or remaining noncancellable operating lease terms total \$140,980 for the year ending June 30, 2020 and \$1,400 for the year ending June 30, 2021. All leases expire on or before July 31, 2020. Subsequent to year end one of the Centre's larger tenants did not renew their lease. Management is actively marketing to potential tenants.

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**BUSINESS DEVELOPMENT CENTRE, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 4. Leases (Continued)**

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, 2019, 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>	
2020	<u>\$ 2,004</u>

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, 2019 and 2018.

**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, 2019 and 2018.

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

At June 30, 2019 and 2018, 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.

**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 will be effective for the year ending June 30, 2021.

## **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, 2019, 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 4, 2019.

**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 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 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 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 4, 2019