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**ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2016**

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

TABLE OF CONTENTS

DECEMBER 31, 2016

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-9
Independent Auditors' Report on Supplementary Information	10
Schedule of Annual Conference Revenues and Expenses	11



Independent Auditors' Report

To the Board of Directors of the
Association of Small Business Development Centers
Burke, Virginia

We have audited the accompanying financial statements of the Association of Small Business Development Centers (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association of Small Business Development Centers as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Fairfax, Virginia
August 29, 2017

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 312,910
Accounts receivable, net	101,263
Prepaid expenses and deposits, current portion	<u>80,504</u>

Total Current Assets \$ 494,677

PREPAID EXPENSES AND DEPOSITS, non-current portion 4,906

PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$32,938 6,818

INVESTMENTS IN MARKETABLE SECURITIES - at fair value 2,417,265

TOTAL ASSETS \$ 2,923,666

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	\$ 11,392
Accrued employee leave	<u>23,694</u>

Total Current Liabilities \$ 35,086

NET ASSETS

Unrestricted

Board designated contingency reserve	\$ 692,908
Undesignated	<u>2,195,672</u>

Total Net Assets \$ 2,888,580

TOTAL LIABILITIES AND NET ASSETS \$ 2,923,666

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

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

REVENUES AND GAINS

Revenues	
Membership dues	\$ 483,583
Annual conference registration, sponsor, exhibitor and other fees	1,300,870
Spring meeting registration fees	37,019
Accreditation program fees from U.S. Small Business Administration	121,543
Special services program fees	252,105
Other	55,284
	<hr/>
Total Revenues	\$ 2,250,404
Investment return	116,445
	<hr/>
Total Revenues and Gains	\$ 2,366,849

EXPENSES

Salaries, payroll taxes and benefits	\$ 577,967
Awards, recognition, premiums and gifts	21,674
Bank and credit card processing fees	46,832
Contracted services - conferences and meetings	357,324
Contracted services - other	33,990
Food and beverage - conferences and meetings	418,907
Impact assessment	18,845
Insurance	15,267
Investment management fees	13,323
Marketing and promotion	19,587
National outreach	41,008
Office supplies and equipment	19,354
Postage and delivery	7,476
Printing, design and copying	56,515
Professional fees	20,279
Boots to Business Modules	176,065
Rent	14,580
Telephone/communications	26,254
Travel and lodging	222,430
Website	3,845
Various other	60,198
	<hr/>
Total Expenses	\$ 2,171,720

INCREASE IN NET ASSETS

\$ 195,129

NET ASSETS - BEGINNING OF YEAR

2,693,451

NET ASSETS - END OF YEAR

\$ 2,888,580

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

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Membership dues collected	\$ 483,583
Conferences and meetings fees collected net of refunds	1,410,887
Accreditation program revenue collected	135,386
Special services program revenue collected	244,906
Interest and dividends received	41,816
Cash paid to employees	(584,166)
Cash paid to suppliers	(1,600,380)
Net Cash Provided by Operating Activities	<u>\$ 132,032</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	\$ (6,148)
Sales of marketable securities	63,169
Purchases of investments in marketable securities including reinvested dividends	(41,503)
Net Cash Provided by Investing Activities	<u>\$ 15,518</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

\$ 147,550

CASH AND CASH EQUIVALENTS

Beginning of year	<u>165,360</u>
End of year	<u><u>\$ 312,910</u></u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED IN OPERATING ACTIVITIES

Increase in net assets	\$ 195,129
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,575
Net realized and unrealized gains on investments	(74,629)
(Increase) decrease in:	
Accounts receivable, net	43,558
Prepaid expenses and deposits	(14,854)
Increase (decrease) in:	
Accounts payable and accrued liabilities	415
Accrued employee leave	38
Deferred revenue	(19,200)
Net Cash Provided by Operating Activities	<u><u>\$ 132,032</u></u>

There were no non-cash investing or financing activities for the year ended December 31, 2016.

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

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 1. **Organization and Nature of Activities**

The Association of Small Business Development Centers (ASBDC or the Association) was incorporated in the state of Maine in 1979 for the purpose of providing a medium for communication among participating colleges, universities and state agencies and their respective directors, and to provide a forum through which the directors can express their view on small business development to public and private organizations. ASBDC is currently located in Burke, Virginia. Through ASBDC's various programs it is dedicated to expanding the role of the national network of Small Business Development Centers (SBDC) in order to contribute to the growth of the state, regional and national economies.

The Association's membership consists of host institutions of small business development centers across the United States. The ability of members to satisfy their obligations for dues to the Association depends, in part, on state and Federal funding of the individual programs. The Association's revenues come from member dues, corporate and federal grants, and conferences.

The Association is affiliated with the Foundation for Small Business Development (the Foundation). The Association and the Foundation share both employees and facilities. These organizations are not under common control. As of December 31, 2016, the corresponding Due to and Due from accounts between the Association and the Foundation were \$0.

Note 2. **Summary of Significant Accounting Policies**

Basis of Accounting – The financial statements have been prepared using the accrual basis of accounting where revenue is recognized in the period in which it is earned, not when received, and expenses are recorded when incurred, not when paid. Revenue from dues is recognized in the period of membership, which ends on a calendar year basis for all members.

Accounts Receivable – Accounts receivable are reported net of a valuation allowance for probable uncollectible amounts. The allowance is estimated by management from historical performance and projection of trends. Generally, receivables are considered delinquent if not received within 60 days of the billing date. No interest is charged on accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Association's valuation allowance for probable uncollectible amounts is \$5,000 as of December 31, 2016.

Property and Equipment – Property and equipment are valued at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years. It is the Association's policy to capitalize acquisitions of property and equipment costing over \$500. Lesser amounts are expensed.

Income Tax Status – The Association is a nonprofit organization that is exempt from federal and Virginia income taxes under Section 501(c)(6) of the Internal Revenue Code. However, the Association is liable for income taxes on any net unrelated business income. There was no unrelated business income for the year 2016.

The Association has determined that it currently does not have any uncertain tax positions. If this position changes, the Association will assess the impact of any such matters on its statement of financial position and its results of operations. The Association is not currently under examination by any taxing authority.

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 2. **Summary of Significant Accounting Policies (Concluded)**

Investments – Investments in marketable securities and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. In accordance with company policy, cash held within the investment portfolio will remain classified as investments.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Association considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Allocated Costs – Salaries, payroll taxes, and employee benefits have been allocated to program services and management and general based on relative level of effort.

Revenue and Revenue Recognition – Revenue is recognized when earned. Membership dues and conference registrations received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Net Assets – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for the contingency reserve.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs – Advertising costs are expensed as incurred, and are included within marketing and promotion expense in the statement of activities for the year ended December 31, 2016.

Note 3. **Investments in Marketable Securities**

The Association values its investments in accordance with the “Fair Value Measurement” topic of FASB ASC 820. FASB ASC 820 establishes a consistent definition of fair value and a hierarchy that encourages and is based on the use of observable inputs, but allows for unobservable inputs when observable inputs do not exist. Inputs are classified into one of three categories:

- Level 1 – Inputs to the valuation methodology are quoted prices in an active market.
- Level 2 – Inputs to the valuation methodology are inputs other than quoted prices in an active market that are observable.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 3. Investments in Marketable Securities (Concluded)

All of the Association's investments are valued using Level 1 inputs. Investments in marketable securities are stated at fair value as measured using quoted closing prices in publicly-traded securities markets and consist of equity and bond mutual funds as follows at December 31, 2016:

	<u>Cost</u>	<u>Fair Value</u>
Equity Mutual Funds		
Cambiar International Equity Fund	\$ 58,146	\$ 55,765
Delaware Inv. Small Cap Fund	66,366	75,785
Vanguard Index Trust 500 Portfolio	439,444	632,544
Bond Mutual Funds		
Blackrock High Yield Bond Fund	69,204	66,458
Harbor Bond Fund	269,562	247,364
Templeton Global Bond Fund	63,597	60,670
Western Asset Core Plus Portfolio	254,111	262,790
Cash	<u>1,015,889</u>	<u>1,015,889</u>
	<u>\$ 2,236,319</u>	<u>\$ 2,417,265</u>

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>
Investments in marketable securities		
Mutual funds	<u>\$ 1,401,376</u>	<u>\$ 1,401,376</u>

The Association recognizes transfers of assets into and out of levels as of the date an event or changes in circumstances causes the transfer. There were no transfers between levels during the year ended December 31, 2016.

The following summarizes investment return as shown in the statement of activities for the year.

Interest and dividends	\$ 41,816
Net realized and unrealized gains on marketable securities	<u>74,629</u>
	<u>\$ 116,445</u>

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31, 2016:

Office furniture and equipment	\$ 18,424
Computer equipment	<u>22,907</u>
	\$ 41,331
Less, accumulated depreciation	<u>(34,513)</u>
	<u>\$ 6,818</u>

Depreciation expense for the year ended December 31, 2016 amounted to \$1,575 and is included in various other expenses in the statement of activity.

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 5. Functional Expenses

Functional expenses are classified according to the purpose for which they are incurred. Costs that can be identified with a particular program or support function are charged directly to that program or function. Salaries and related costs have been allocated among the programs and supporting services based upon management's best estimates of the proportion of these costs applicable to each program. Other allocable costs have been allocated to program services and to management and general based upon management's best estimates. The Association's functional expenses are the following;

Program services	\$ 1,760,240
Management and general	411,480
Total	<u>\$ 2,171,720</u>

Note 6. Pension Plan

The Association maintains a 401(k) pension plan for all eligible employees meeting the minimum length of service qualification. The Association's matching contributions expense amounted to \$14,846 for the year. The plan is administered by RCM&D, Inc., a professional plan administrator.

Note 7. Lease Agreement

The Association leases office space located in Burke, Virginia under an operating lease expiring November 30, 2019. For 2016, rent under the lease amounted to \$14,580. The Association also leases a copier under a 60 month lease, which began on January 1, 2015. The lease calls for monthly payments of \$415, which is included within office supplies and equipment expense in the statement of activities. The following are the future minimum payments required under the leases as of December 31, 2016:

2017	\$ 20,001
2018	20,451
2019	19,551
Thereafter	-
	<u>\$ 60,003</u>

Note 8. Concentrations of Credit Risk

The Association places its deposits of cash and cash equivalents at several banks and an investment institution. At times, such deposits may be in excess of the FDIC insurance limit.

The Association's major source of revenue is derived from dues and conference fees paid by its membership. The membership is made up of small business development centers which depend, in part, on state and federal funding.

Note 9. Board Designated Contingency Reserve

All net assets are unrestricted, but the board of directors and membership in March 2001, established a long-term reserve fund funded by a three year dues surcharge of 0.0015%. In 2005 the dues surcharge expired. That reserve, pursuant to the by-laws (as amended in 2009) requires a two-thirds board vote of approval before the funds may be used. Additions to the contingency reserve were made in the years 2003 through 2006.

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 10. Commitments

The Association has future commitments in the form of hotel contracts for the Association's annual conference through 2022, and for its spring meeting through 2017. These contracts contain various standard penalty clauses related to minimum room nights, cancellations and minimum food and beverage expenditures. Those clauses could pose future liability. The extent of this potential liability cannot be accurately assessed due to factors including the availability of federal funding, program restrictions, etc.

Note 11. Subsequent Events

The Association has evaluated subsequent events through August 29, 2017, the date that the financial statements were available to be issued, and determined there was no event occurring subsequent to December 31, 2016 that would have a material impact on the Association's results of operations or financial position.



INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of the
Association of Small Business Development Centers
Burke, Virginia

We have audited the financial statements of the Association of Small Business Development Centers as of and for the year ended December 31, 2016, and have issued our report thereon dated August 29, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The information in the schedule of annual conference revenues and expenses is presented for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Fairfax, Virginia
August 29, 2017

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS
SCHEDULE OF ANNUAL CONFERENCE REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

Included in the Statement of Activities are the following revenues and expenses related to the annual conference:

Conference revenues		
Registration, sponsor, exhibitor, and other fees		\$ 1,300,870
Conference expenses		
Salaries, payroll taxes and benefits - allocated	\$ 216,392	
Awards, recognition, premiums and gifts	19,503	
Bank and credit card processing fees	41,815	
Contracted services and speaker fees	179,738	
Food and beverage	362,456	
Insurance	5,185	
Marketing and promotion	8,130	
Office supplies and equipment	6,398	
Postage and delivery	5,271	
Printing, design and copying	51,934	
Telephone/communications	131,178	
Travel and lodging	39,701	
	<u>1,067,701</u>	<u>1,067,701</u>
Excess of Conference Revenues over Expenses		<u>\$ 233,169</u>

See independent auditors' report on supplementary information.