Valley Economic Development Center, Inc.
and Affiliate

Combined Financial Statements
and Independent Auditor's Report

March 31, 2014

Valley Economic Development Center, Inc. and Affiliate

Index

	Page
Independent Auditor's Report	2 – 3
Combined Financial Statements	
Combined Statement of Financial Position	4
Combined Statement of Activities	5
Combined Statement of Functional Expenses	6
Combined Statement of Cash Flows	7
Notes to Combined Financial Statements	8 – 24

Independent Auditor's Report

To the Board of Directors
Valley Economic Development Center, Inc.

We have audited the accompanying combined financial statements of Valley Economic Development Center, Inc. and Affiliate, which comprise the combined statement of financial position as of March 31, 2014, and the related combined statements of activities, functional expenses 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 combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Valley Economic Development Center, Inc. and Affiliate as of March 31, 2014, and 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.

CohnReznick LLP

Los Angeles, California
July 25, 2014

Valley Economic Development Center, Inc. and Affiliate

Combined Statement of Financial Position
March 31, 2014

Assets	
Cash and cash equivalents	$ 1,676,730
Restricted cash and cash equivalents	7,495,695
Contributions and other receivables	9,735,062
Loans receivable, net of allowance of $1,315,804	28,812,117
Investment in equity securities	560,000
Investment in limited liability company	459,685
Prepaid expenses and other assets	135,270
Property and equipment, net	4,921,963
Total	$ 53,796,522
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 1,181,748
Deferred revenue	19,226
Notes payable	23,203,759
Equity equivalent notes payable	5,980,000
Total liabilities	30,384,733
Commitments and contingencies	
Net assets:	
Unrestricted	2,149,163
Temporarily restricted	8,685,478
Permanently restricted	12,577,148
Total net assets	23,411,789
Total	$ 53,796,522

See Notes to Combined Financial Statements.

Valley Economic Development Center, Inc. and Affiliate

Combined Statement of Activities
Year Ended March 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:				
Government grants	$ 1,648,225	$ 700,000	$ 645,437	$ 2,993,662
Contributions	2,408,965	5,042,687	-	7,451,652
Interest income	2,226,590	-	-	2,226,590
Lending revenues	1,055,207	-	-	1,055,207
Rental income	20,400	-	-	20,400
Consulting income	64,000	-	-	64,000
Workshop and program income	16,877	-	-	16,877
Income from investment in limited liability company	78,597	-	-	78,597
Realized and unrealized gains from investment in equity securities	60,000	-	-	60,000
Other income	27,672	-	-	27,672
Net assets released from restrictions for:				
Loan losses	718,077	(583,340)	(134,737)	-
Depreciation	33,073	-	(33,073)	-
Donor release	166,667	500,000	(666,667)	-
	8,524,350	5,659,347	(189,040)	13,994,657
Functional expenses:				
Program services	6,974,693	-	-	6,974,693
General and administrative	1,079,520	-	-	1,079,520
Fundraising	188,055	-	-	188,055
Total expenses	8,242,268	-	-	8,242,268
Change in net assets	282,082	5,659,347	(189,040)	5,752,389
Net assets, beginning of year	1,867,081	3,026,131	12,766,188	17,659,400
Net assets, end of year	$ 2,149,163	$ 8,685,478	$ 12,577,148	$ 23,411,789

See Notes to Combined Financial Statements.

Valley Economic Development Center, Inc. and Affiliate

Combined Statement of Functional Expenses
Year Ended March 31, 2014

	Program Services	Management and General	Fundraising	Total
Personnel Expenses				
Salaries and wages	$ 2,726,000	$ 334,432	$ 96,415	$ 3,156,847
Payroll taxes	243,142	19,883	7,451	270,476
Employee benefits	387,201	75,729	12,274	475,204
	3,356,343	430,044	116,140	3,902,527
Other Expenses				
Advertising	69,443	4,632	-	74,075
Allowance for loan losses and charge offs	815,061	-	-	815,061
Bank charges	40,488	23,760	-	64,248
Commissions	6,000	-	-	6,000
Computer and software	77,409	12,602	7,400	97,411
Conferences, meetings, and trainings	195,534	114,840	-	310,374
Consulting fees	322,229	63,749	-	385,978
Depreciation and amortization	39,299	9,995	-	49,294
Donations and sponsorships	9,750	-	27,221	36,971
Dues and publications	16,931	20,729	-	37,660
Employee recognition	4,014	24,727	-	28,741
Equipment costs	35,723	5,161	-	40,884
Insurance	26,277	2,668	-	28,945
Interest	983,361	1,285	-	984,646
Legal and professional fees	93,412	117,339	-	210,751
Loan service fees	137,087	2,424	-	139,511
Marketing	183,409	58,218	-	241,627
Postage	31,774	10,110	1,123	43,007
Printing and copies	26,886	4,264	-	31,150
Rent	250,669	27,869	8,819	287,357
Repairs	22,403	8,448	-	30,851
Supplies	58,964	16,353	5,758	81,075
Taxes and licenses	716	15,664	70	16,450
Telephone	41,620	12,991	3,876	58,487
Travel	97,099	84,516	14,424	196,039
Utilities	32,792	7,132	3,224	43,148
Totals	$ 6,974,693	$ 1,079,520	$ 188,055	$ 8,242,268

See Notes to Combined Financial Statements.

Valley Economic Development Center, Inc. and Affiliate

Combined Statement of Cash Flows
Year Ended March 31, 2014

Operating activities:		
Change in net assets	$	5,752,389
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization		49,295
Allowance for loan losses and charge offs		815,061
Realized and unrealized gains on investment in equity securities		(60,000)
Income from investment in limited liability company		(78,597)
Permanently restricted revenues and support		(645,437)
Changes in operating assets and liabilities:		
Contributions and other receivables		(4,905,197)
Prepaid expenses and other assets		(90,354)
Related party receivables		93,440
Accounts payable and accrued expenses		579,418
Deferred revenue		(30,774)
Net cash and cash equivalents provided by operating activities		1,479,244
Investing activities:		
Disbursements of loans receivable		(22,233,947)
Repayments received from loans receivable		15,881,375
Purchases of property and equipment		(1,346,944)
Distribution from investment in limited liability company		46,924
Purchase of equity securities		(500,000)
Net cash and cash equivalents used in investing activities		(8,152,592)
Financing activities:		
Increase in restricted cash and cash equivalents		1,026,656
Proceeds from notes payable		9,780,717
Principal payments on notes payable		(6,974,859)
Proceeds from equity equivalent notes payable		2,000,000
Payments on lines of credit		(96,429)
Permanently restricted revenues and support		645,437
Net cash and cash equivalents provided by financing activities		6,381,522
Net decrease in cash and cash equivalents		(291,826)
Cash and cash equivalents, beginning of year		1,968,556
Cash and cash equivalents, end of year	$	1,676,730
Supplemental disclosure of cash flow information:		
Interest paid	$	951,220

See Notes to Combined Financial Statements.

Note 1 - Business and summary of significant accounting policies

Business

Valley Economic Development Center, Inc., a certified Community Development Financial Institution ("CDFI"), is a California tax-exempt nonprofit corporation whose mission is to provide financing assistance, management consulting, and training to entrepreneurs and small business owners in and around Los Angeles County and throughout California. Those services include business training for start-up and fledgling small businesses as well as services to more established existing small businesses. These services are intended to aid in the creation and retention of jobs for low or moderate-income individuals, the expansion and improvement of the availability of goods and services for low and moderate-income individuals and the alleviation of economic stress in the communities that Valley Economic Development Center, Inc. serves.

The accounts of Valley Economic Development Center, Inc. include those of its wholly-owned subsidiaries, Chicagoland Business Opportunity Fund, LLC ("CBOF"), a limited liability company organized in Illinois, and Tri-State Opportunity Fund, LLC ("TSOF"), a limited liability company organized in New York.

Valley Economic Development Center, Inc. has control of the Nevada Micro-Enterprise Development Corporation, doing business as Nevada Microenterprise Initiative ("NMI"), which operates loan funds and a Women's Business Center serving the state of Nevada.

Principles of combination

The combined financial statements include the accounts of Valley Economic Development Center, Inc. and its subsidiaries and NMI (collectively, "VEDC"). All significant intercompany balances and transactions have been eliminated in combination.

Basis of accounting

The combined financial statements of VEDC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Primary Program Services

Entrepreneurial Training Program ("ETP") - VEDC, through contractual agreements with various government and private entities, is responsible for implementing a series of entrepreneurial training programs whereby fledgling and start-up businesses agree to create jobs for low or moderate-income individuals upon the completion of training workshops administered by VEDC.

Business Source - VEDC is operating and managing two of the eight Los Angeles City Business Source Centers, which provide counseling and separate training programs for qualifying micro-enterprise business owners and entrepreneurs. The program includes marketing and outreach strategies, prescreening, capital access support training and follow-up tracking for its clients.

Small Business Association ("SBA") Women's Business Center Program - VEDC is operating and managing the Women's Business Center Program to provide counseling, one-on-one and classroom training and lending services primarily targeted to women and minority-owned businesses in Los Angeles County. This program is open to all applicants regardless of gender, race or any other affiliation. The program also includes marketing and outreach strategies, prescreening, training and follow-up tracking for its clients.

Revolving Loan Fund ("RLF") Program - VEDC administers approximately $6,000,000 in U.S. Department of Commerce funds received through the Economic Development Agency ("EDA"). The size of these loans generally exceeds $50,000. These funds are made available to any existing qualifying businesses in the City of Los Angeles.

The Micro-Loan Programs - VEDC provides financing to existing and start-up businesses, home-based companies and sole proprietors in and around Los Angeles County. VEDC originates loans from $1,000 to $50,000 with a three-to-five-year term. The primary funding for these micro-loans are SBA loan funds and several nonrecourse loan funds provided by several commercial banking supporters including Wells Fargo Bank, Bank of America, GE Capital and US Bank.

SBA PRIME ("Program for Investment in Micro-Entrepreneurs") Program - VEDC received a grant from the SBA to provide technical assistance, one-on-one and classroom training and lending access services targeted to economically disadvantaged microenterprises consisting of firms with less than five employees. This program also provides services to enhance business planning, marketing, general financial management skills and assistance in obtaining access to financial services.

USDA - Intermediary Relending Program - VEDC has a program in place whereby it can access up to $500,000 from the U.S. Department of Agriculture, Rural Business Cooperative Services for re-lending to entrepreneurs who are qualified under this program.

Non-Government Large Loan Fund Programs - VEDC has programs in place whereby it receives recourse loan funds from various financial organizations to provide larger loans for existing businesses that are qualified for, and meet the requirements of, these nongovernmental lending programs.

Financial statement presentation

VEDC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted - Net assets whose use by VEDC is subject to either explicit donor-imposed stipulations or operation of law that can be fulfilled by actions of VEDC or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by VEDC and stipulate the use of income and/or appreciation as temporarily restricted based on donor-imposed stipulations or by operation of law. Permanently restricted net assets include donations that have been restricted by the donor in perpetuity.

Contributions
Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets.

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support.

Unconditional promises to give, with payments due in future periods, are reported as restricted support when the promises are received. Gifts of land, buildings and equipment are reported as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulation, VEDC reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promissor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Cash and cash equivalents
Cash and cash equivalents include demand deposits and all highly liquid investments with initial maturities at the date of acquisition of three months or less that are available for current use.

Restricted cash and cash equivalents
VEDC establishes separate cash accounts for funds that must be utilized for loan disbursements and funds restricted for loan loss reserves. VEDC is required to maintain loan loss reserve accounts by various lenders and contributors and its own internal policies. In general, VEDC maintains a loan loss reserve equal to 10% of loans receivable that have been funded with full recourse debt. The terms of the SBA lending programs require VEDC to maintain a loan loss reserve balance on deposit of 15% of its SBA microloan portfolio.

At March 31, 2014, restricted cash and cash equivalents consist of the following:

Loan disbursement accounts	$	3,449,747
Grant funds restricted for specific uses		975,794
Loan loss reserve accounts		3,070,154
	$	7,495,695

Contributions and other receivables
Contributions and other receivables are stated at unpaid balances, less an allowance for doubtful accounts. VEDC provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the donor to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is VEDC's policy to charge off uncollectible receivables when management determines the receivable will not be collected. Receivables due in more than one year are discounted to the present value of estimated future cash flows.

Allowance for loan losses
The allowance for loan losses is based upon management's periodic review of the collectability of loans after considering changes in internal and external factors, past loss experience, the nature and volume of the portfolio and current economic conditions. The allowance is an estimate that could change if there are significant changes in the portfolio and/or economic conditions. During the year, VEDC expensed $662,104 of nonperforming loans it determined were uncollectible and has a $1,315,804 reserve at March 31, 2014.

VEDC considers loans to be delinquent after they are 90 days past due. VEDC considers loans to be nonperforming when management determines it is probable that VEDC will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan agreement. As of March 31, 2014, VEDC's loan portfolio included $2,494,283 of delinquent loans and $467,827 of nonperforming loans.

Investments in equity securities
Investments in equity 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.

Investment in limited liability company
VEDC accounts for its investment in a limited liability company using the equity method of accounting.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method and is provided over the estimated useful lives of the assets, generally between three to forty years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets
Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. VEDC periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred. No impairments were recorded during the year ended March 31, 2014.

Fair value measurements
VEDC values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

> Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
>
> Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Deferred revenue
VEDC defers recognition of revenue when it receives revenues that have not yet been earned, including income from exchange transactions and conditional grants which have performance obligations that VEDC must meet before revenues can be recognized.

Equity equivalent notes payable
Equity equivalent notes payable are funds received from lenders that are structured as notes payable but possess certain attributes of equity and are defined by the lender as equity equivalent notes payable. Notes payable are included in this category when they meet certain criteria accepted within the CDFI community, including an indeterminate maturity, subordination to all other debt and lack of security.

Government grants
VEDC receives substantial funding from government agencies. VEDC recognizes income from these grants as revenue and support to the extent that expenditures have been made for the purposes specified by the grant agreement. Amounts received in excess of expenditures incurred is recorded as deferred revenue.

Reimbursements recorded under these grants are subject to government audit. Such audits could result in claims against VEDC for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined.

Loan-related revenue
VEDC has various types of revenue which arise from the servicing of loans, including loan origination fees and interest income. Interest income is recognized as earned based on the principal balance of loans receivable. VEDC does not accrue interest on loans past due in excess of 90 days. Loan origination fees are recognized immediately.

Functional allocation of expenses
The costs of providing various programs and activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs
Advertising costs are expensed as incurred. Advertising costs were $74,075 for the year ended March 31, 2014.

Income taxes
Valley Economic Development Center, Inc. is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of California. As limited liability companies, CBOF and TSOF are classified as partnerships for income tax purposes and all income and losses pass through to the individual partners. While tax-exempt organizations pay tax on unrelated business income, VEDC has reported no such income. Accordingly, no provision for income taxes is included in the accompanying combined financial statements. VEDC has no unrecognized tax benefits at March 31, 2014.

VEDC's Federal and state income tax returns prior to the 2011 and 2010 fiscal years, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, VEDC recognizes interest and penalties associated with tax matters as part of income tax expense and includes accrued interest and penalties with accrued expenses in the combined statement of financial position.

Use of 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
VEDC has evaluated the impact of subsequent events through July 25, 2014, which is the date the combined financial statements were available to be issued (see Note 16).

Note 2 - Concentrations

Financial instruments that potentially subject VEDC to concentrations of credit risk consist primarily of cash and cash equivalents, contributions and other receivables and loan receivables. VEDC maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits.

At March 31, 2014, two donors represent approximately 82% of contributions and other receivables.

For the year ended March 31, 2014, approximately 40% of the revenues and support were from one donor.

Note 3 - Contributions and other receivables

Contributions and other receivables are recorded as follows:

Contributions and other receivables	$	9,751,229
Less discount to present value		(16,167)
	$	9,735,062

Contributions and other receivables due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 2%. At March 31, 2014, gross undiscounted receivables due in less than one year are $6,938,729. Gross undiscounted receivables due in one to five years are $2,812,500, and no amounts are due in more than five years. At March 31, 2014, an allowance for uncollectible receivables is not considered necessary.

Note 4 - Loans receivable

VEDC operates two primary loan programs: small business loans with initial balances of $50,000 or more, and microloans with original balances of less than $50,000. These loans are secured and have variable annual interest rates of up to 13.125%. In most cases, principal payments repaid by borrowers are used to re-capitalize the loan funds or to repay term debt associated with VEDC's lending programs. VEDC earns interest income plus service fees on most of these loans. Certain loan receivable balances serve as collateral for VEDC's notes payable (see Note 9).

At March 31, 2014, VEDC had loans receivable from various businesses through September 2023 as follows:

Small business loans:	
EDA RLF	$ 4,267,773
Other small business loans	19,966,457
	24,234,230
Allowance for loan losses	(1,048,648)
Net small business loans outstanding	23,185,582
Microloans:	
SBA microloans	1,417,665
Other microloans	4,476,026
	5,893,691
Allowance for loan losses	(267,156)
Net microloans outstanding	5,626,535
	$ 28,812,117

Future maturities of the loans receivable are as follows:

Year Ending March 31,	
2015	$ 5,455,726
2016	5,616,347
2017	4,690,885
2018	5,063,134
2019	2,581,005
Thereafter	6,720,824
	30,127,921
Less allowance for loan losses	(1,315,804)
	$ 28,812,117

Note 5 - Investment in equity securities

At March 31, 2014, investment in equity securities consists of an investment in a financial services company, which is valued at $560,000 and is a Level 2 fair value measurement as described in Note 1. The valuation is determined from real-time quotes for transactions in the thinly traded security. For the year ended March 31, 2014, there have been no changes in the valuation methodologies.

The preceding method may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. Furthermore, although VEDC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 - Investment in limited liability company

In January 2001, Valley Corporate Community Center, LLC (“VCCC") was formed by VEDC and other affiliated entities. VCCC owns and operates the building in which VEDC has its main offices (see Note 11). VEDC holds a 46.67% ownership interest in VCCC, reported at $459,685 using the equity method of accounting.

VEDC and the other parties guarantee the building's mortgage and are jointly and severally liable for the mortgage on the building. The mortgage totaled $2,508,611 as of March 31, 2014, and is secured by the building. VEDC would be obligated to perform under this guarantee if VCCC failed to pay principal and interest payments to the lender when due.

VCCC’s balance sheet and statement of operations (unaudited) as of March 31, 2014 are summarized as follows:

Balance sheet:	
Total assets	$ 2,713,769
Total liabilities	(2,532,730)
Members' capital	$ 181,039
Statement of operations:	
Total income	$ 516,756
Total expenses	(381,179)
Net income	$ 135,577

At March 31, 2014, VEDC’s share of the underlying members’ capital of VCCC exceeded its investment by approximately $375,000. The excess is due to the allocation of all depreciation and amortization to a certain member in accordance with the partnership agreement.

Note 7 - Property and equipment

At March 31, 2014, property and equipment consist of the following:

Land	$	1,884,426
Buildings		1,333,844
Machinery and equipment		62,729
Computer equipment		221,935
Furniture and fixtures		33,059
Leasehold improvements		126,240
Construction in progress		1,715,165
		5,377,398
Less accumulated depreciation and amortization		(455,435)
	$	4,921,963

Depreciation and amortization expense for the year ended March 31, 2014 was $49,295. Depreciation of construction in progress will commence when finished projects are placed in service. For the year ended March 31, 2014, VEDC capitalized $32,000 of interest costs into construction in progress.

Note 8 - Lines of credit

At March 31, 2014, VEDC maintains a $200,000 revolving line of credit with a bank with interest at the prime rate plus 2% and maturing in July 2015, of which there was no outstanding balance. For lending purposes, VEDC maintains other lines of credit, which are detailed in Note 9.

Note 9 - Notes payable

VEDC obtains outside financing to fund its lending programs from governmental agencies, nonprofit organizations and commercial banks. Certain notes payable are secured by related loans receivable, and the funds have been provided without recourse. Other notes payable are general obligations of VEDC.

Notes payable are detailed as follows:

Small Business Administration - Note payable dated December 7, 2009, secured by the related loans to borrowers. The annual interest rate is 3.25%. All unpaid principal and interest amounts are due December 2019. The payment and interest rate are evaluated and adjusted annually by SBA based on the outstanding balance and payment history of VEDC. Loan proceeds are used to fund microloans to small business owners.	$	452,491
Small Business Administration - Note payable dated April 12, 2006 secured by the related loans to borrowers. The annual interest rate is 4.375%. All unpaid principal and interest amounts are due April 2016. The payment and interest rate are evaluated and adjusted annually by SBA based on the outstanding balance and payment history of VEDC. Loan proceeds are used to fund microloans to small business owners.		189,460

Small Business Administration - Note payable dated August 2, 2011 secured by the related loans to borrowers. The annual interest rate is 2.125%. All unpaid principal and interest amounts are due August 2021. The payment and interest rate are evaluated and adjusted annually by SBA based on the outstanding balance and payment history of VEDC. Loan proceeds are used to fund microloans to small business owners.	456,063
Small Business Administration - Note payable dated November 8, 2013 secured by the related loans to borrowers. The annual interest rate is 1.375%. All unpaid principal and interest amounts are due November 2023. The payment and interest rate are evaluated and adjusted annually by SBA based on the outstanding balance and payment history of VEDC. VEDC makes monthly principal and interest payments of $11,574. Loan proceeds are used to fund microloans to small business owners.	717,500
U.S. Department of Agriculture ("USDA") - Note payable dated November 1, 2006, secured by related loans to borrowers and real and personal property. The annual interest rate is 1%. Interest-only payments are due for the first three years. Principal and interest payments are due over the following 27 years with the remaining principal balance due October 2036. Loan proceeds are used to fund loans to small business owners.	450,813
Unsecured note payable to Opportunity Finance Network dated August 2, 2006. The annual interest rate is 4.6%, payable quarterly. All unpaid principal and interest is due September 2015. Loan proceeds are to be used to provide technical and financial assistance for community development projects in physically blighted and economically distressed areas.	408,913
Unsecured note payable to Banc of America Community Development Corporation dated September 9, 2010. VEDC has the option of borrowing up to $1,000,000 in $250,000 increments. The annual interest rate is 3%, payable quarterly. Annual principal payments of $200,000 commence September 2016, and all remaining unpaid principal and interest is due September 2020.	1,000,000
Unsecured, full recourse note payable to Goldman Sachs Bank USA ("Goldman Sachs") dated December 30, 2010. VEDC may borrow up to $5,000,000, which may be increased to $7,000,000 per the loan agreement. The annual interest rate is LIBOR plus 350 basis points, payable monthly, and all unpaid principal and interest is due July 2015.	2,983,726
Unsecured note payable to California United Bank dated November 18, 2010. The annual interest rate is based on the Wall Street Journal Prime Rate (3.25% as of March 31, 2014), payable monthly. Principal payments commence February 2013, and all unpaid principal and interest is due October 2016.	517,875

Unsecured note payable to Communities at Work Fund, L.P. dated September 13, 2011. The annual interest rate is 4.3%, payable monthly, and all unpaid principal and interest is due September 2016.	643,540
Unsecured note payable to U.S. Department of Treasury-Small Business Lending Fund dated September 21, 2011. The annual interest rate is 2%, payable quarterly, and all unpaid principal and interest is due September 2019.	661,000
A $2,000,000 revolving line of credit to be used for lending purposes under the SBA Community Advantage program payable to Bank of America. The line matures September 11, 2014 and is secured by the loans made under this facility and any proceeds earned in conjunction with such loans. The annual interest rate is LIBOR (0.56% at March 31, 2014) plus 2%. Interest payments are due monthly.	469,551
A $500,000 revolving line of credit to be used for lending purposes payable to California United Bank. The line, dated April 17, 2012, is secured by the related loans to borrowers. The annual interest rate is 3.25%. Interest and principal payments, which vary based on the amortization schedules of the related loans to borrowers, are due monthly. All unpaid principal and interest is due April 15, 2018.	127,500
A $250,000 revolving line of credit to be used for lending purposes in Ventura County payable to California United Bank. The line, dated April 17, 2012, is secured by the related loans to borrowers. The annual interest rate is 4.25%. Interest and principal payments, which vary based on the amortization schedules of the related loans to borrowers, are due monthly. All unpaid principal and interest is due April 15, 2018.	27,738
A $500,000 revolving line of credit to be used for lending purposes in the greater Los Angeles area payable to California United Bank. The line, dated April 17, 2012, is secured by the related loans to borrowers. The annual interest rate is 4.25%. Interest and principal payments, which vary based on the amortization schedules of the related loans to borrowers, are due monthly. All unpaid principal and interest is due April 15, 2018.	445,272
A $10,000,000 revolving line of credit to be used for lending purposes in the greater Los Angeles area payable to UBS Bank. The line, dated May 30, 2012, is secured by the related loans to borrowers. The interest rate is the greater of the three-month LIBOR or 0.5% plus 3%. Interest payments are due monthly. All unpaid principal and interest is due May 29, 2018.	5,208,033

A $1,000,000 revolving line of credit to be used for lending purposes payable to City National Bank. The line, dated August 9, 2012, is secured by the related loans to borrowers and bears interest at 4%. Interest payments are due monthly. All unpaid principal and interest is due June 1, 2024.	1,000,000
Unsecured note payable dated July 23, 2012 due to Boston Private Bank & Trust. The annual interest rate is 4% fixed with a maturity date of October 23, 2017.	368,358
Note payable to Goldman Sachs dated July 13, 2012 in relation to the 10,000 Small Businesses Initiative. The note is secured by the related loans to borrowers. Credit agreement details two notes - one for $6,000,000 with a minimum borrowing of $3,000,000 after one year, and one for $5,500,000 issued at the lender's discretion. The annual interest rate is 4%.	3,853,950
Note payable to UBS Bank issued to CBOF. The line, dated July 31, 2012, is secured by the related loans to borrowers. The annual interest rate is the greater of the three-month LIBOR or 0.5% plus 3%. Interest payments are due monthly. All unpaid principal and interest is due July 30, 2019.	1,017,976
Unsecured note payable dated June 1, 2013 due to US Bank. The annual interest rate is 3.5% fixed with a maturity date of June 1, 2018. Loan proceeds are used to fund loans under the microloans program.	2,000,000
Small Business Administration - Note payable dated October 27, 2009 secured by the related loans to borrowers. The annual interest rate is 2.5%.	4,000
Note payable to the State of Nevada State Small Business Credit Initiative, bearing interest at 3% and due on March 13, 2017.	200,000
	$ 23,203,759

The future maturities of these notes payable are included within Note 10.

Certain of the notes payable above contain covenants regarding certain financial statement amounts, ratios and activities of VEDC. At March 31, 2014, VEDC was in compliance with all such covenants.

Note 10 - Equity equivalent notes payable

Equity equivalent notes payable generally provide for interest at lower-than-market rates and include flexibility in maturity dates. Each of the notes payable included below provides for an extension of the maturity date by one year provided that no event of default has occurred.

Equity equivalent notes payable are detailed as follows:

Unsecured note payable to Wells Fargo Bank dated November 1, 2004. The annual interest rate is 2%, payable quarterly. Principal and any unpaid interest is due November 2014.	$	180,000
Unsecured note payable to GE Money Bank dated June 25, 2007. The annual interest rate is 4%, payable quarterly. Principal and any unpaid interest is due June 2017.		500,000
Unsecured note payable to US Bancorp Community Development Corporation dated September 17, 2009. The annual interest rate is fixed at 4%, payable quarterly. All unpaid principal and interest is due September 2019.		2,000,000
Unsecured note payable to Wells Fargo Community Investment Holdings dated October 6, 2010. The annual interest rate is 2%, subject to increase after five years per the agreement, payable quarterly, and all unpaid principal and interest is due October 2016.		800,000
Unsecured note payable to Union Bank dated February 5, 2013. The annual interest rate is fixed at 2%, payable quarterly. All unpaid principal and interest is due February 2018.		500,000
Unsecured note payable dated April 1, 2013 due to US Bank. The annual interest rate is 3.5% fixed with a maturity date of April 1, 2018. Loan proceeds are used to fund loans under the microloans program.		2,000,000
	$	5,980,000

Future maturities of notes payable (see Note 9) and equity equivalent notes payable are as follows:

Year Ending March 31,		
2015	$	3,939,334
2016		4,090,378
2017		4,540,647
2018		5,093,837
2019		6,797,051
Thereafter		4,722,512
	$	29,183,759

Note 11 - Commitments and contingencies

Operating leases - lessee

VEDC leases equipment under operating leases that expire through November 2015 and office space under operating leases expiring at various dates through February 2021. The main office space is leased from VCCC (see Note 6) at a monthly rate of $16,250. The lease agreement provides an option to renew for an additional ten years, providing that VEDC continues to hold its member interest. Total rent expense incurred for all operating leases was $289,894 for the year ended March 31, 2014. Future minimum lease payments required under the non-cancelable operating leases in each of the five years subsequent to March 31, 2014 and thereafter are as follows:

Year ending March 31,	Related Parties	Non-related Parties	Total
2015	$ 195,000	$ 99,714	$ 294,714
2016	195,000	47,174	242,174
2017	195,000	-	195,000
2018	195,000	-	195,000
2019	195,000	-	195,000
Thereafter	373,750	-	373,750
	$ 1,348,750	$ 146,888	$ 1,495,638

Operating lease - lessor

VEDC owns a commercial building and leases office space to an entity under an operating lease expiring in December 31, 2015. For the year ended March 31, 2014, VEDC recorded rental income of $20,400 under the lease. Future minimum lease payments to be received under the non-cancelable operating lease in each of the years subsequent to March 31, 2014 are as follows:

Year Ending March 31,	
2015	$ 28,305
2016	22,950
	$ 51,255

Contingencies

Certain claims have been filed against VEDC in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the combined financial position or results of activities of VEDC if disposed of unfavorably.

Note 12 - Temporarily restricted net assets

At March 31, 2014, temporary restrictions on net assets consist of the following:

Programs	$	3,351,132
Programs, time		2,516,915
Loan loss reserves		453,013
Loan loss reserves, time		2,364,418
	$	8,685,478

Note 13 - Permanently restricted net assets

VEDC's permanently restricted net assets consist of two RLFs established with funds from the EDA and the net book value of property acquired to house a non-profit organization involved in localized economic development. At March 31, 2014, permanently restricted net assets consist of the following:

EDA RLF programs	$	6,097,926
EDA RLF programs, receivable		3,744,027
Property and equipment		2,735,195
	$	12,577,148

For the year ended March 31, 2014, $134,737 of loan losses were applied against the EDA RLF program net assets, and $33,073 of depreciation expense was recorded against a permanently restricted building. In addition, $666,667 of permanently restricted net assets were released to temporarily restricted net assets due to a change in donor intent. $166,667 of these funds were released from the temporary restriction during the year ended March 31, 2014.

Note 14 - Retirement plan

VEDC maintains a discretionary 401(k) plan for the benefit of all employees who meet eligibility requirements. Employee eligibility for contribution is based upon years of service. The maximum amount the employees may defer in any plan year is 15% of their compensation, not to exceed the maximum dollar amount allowable by law in any calendar year. VEDC did not contribute to the plan during the year ended March 31, 2014.

Note 15 - Related party transactions

VEDC rents its main office space from VCCC (see Note 11). For the year ended March 31, 2014, VEDC paid $195,000 of rent expense to VCCC.

VEDC provides accounting services to an organization in which the Chief Executive Officer of VEDC is also the paid President. For the year ended March 31, 2014, VEDC received $24,000 for these services.

Note 16 - Subsequent events

In July 2014, VEDC entered into a $2,000,000 equity equivalent note payable agreement with a bank. The annual interest rate is 2%, payable quarterly, and all unpaid principal and interest is due July 2019.