

November 9, 2006

The Honorable Timothy M. Kaine  
Governor of the Commonwealth of Virginia  
Office of the Governor  
Patrick Henry Building, 3rd Floor  
1111 East Broad Street  
Richmond, Virginia 23219

The Honorable Patrick O. Gottschalk  
Secretary of Commerce and Trade  
Patrick Henry Building, 3rd Floor  
1111 East Broad Street  
Richmond, Virginia 23219

The Honorable John H. Chichester  
Chairman  
Senate Finance Committee  
P.O. Box 904  
Fredericksburg, Virginia 22404

The Honorable Vincent F. Callahan, Jr.  
Chairman  
House Appropriations Committee  
P.O. Box 1173  
McLean, Virginia 22101

Dear Governor Kaine, Secretary Gottschalk, Chairman Chichester, and Chairman Callahan:

Pursuant to Section 2.2-2312 of the Code of Virginia, the Executive Director of the Virginia Small Business Financing Authority (VSBFA) “...shall within 120 days of the close of each fiscal year, submit an annual report of its activities for the preceding fiscal year to the Governor and the chairmen of the House Committee on Appropriations and the Senate Committee on Finance. Each report shall set forth, for the preceding fiscal year, a complete operating and financial statement for the Authority and any loan fund or loan guarantee fund the Authority administers or manages.” The activity listed below and the attached financial statement with accompanying notes is in fulfillment of that requirement.

During Fiscal Year 2006 the VSBFA committed \$5,915,013 through its seven direct loan and credit enhancement programs to 107 small businesses or local Industrial Development Authorities. VSBFA financing enabled total private debt, private equity, and other public debt of \$51,860,331, and produced an overall leveraging factor of \$9:1 (private to public) during FY '06. In addition, the VSBFA facilitated an additional \$195 million in private activity bond financings for manufacturers and 501 (c) 3 non-profits. This financing assisted Virginia's businesses and non-profits in creating or retaining 1,482 jobs. Many of those new jobs occurred in the state's most highly distressed regions, Southwest and Southside Virginia. Overall, the VSBFA portfolio returned \$2.24 in one year for every \$1 the Commonwealth has invested. This amount does not include the corporate income tax or local machinery and tool tax revenues that were also generated. Since inception, the VSBFA has assisted small businesses in creating and saving 22,367 jobs.

Please feel free to contact me should you have any questions regarding this report or the attached financial statements.

Respectfully,

Scott E. Parsons  
Executive Director

Cc: Ms. Louisa Strayhorn, Director, Department of Business Assistance  
Mr. Andrew Brownstein, Board Chairman, Virginia Small Business Financing Authority  
Ms. Anne Oman, House Appropriations Committee  
Mr. Neal Menkes, Senate Finance Committee

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**

**(A Component Unit of the Commonwealth of Virginia)**

Management's Discussion and Analysis,  
Basic Financial Statements and Supplementary Information

June 30, 2006 and 2005

# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
Management's Discussion and Analysis  
June 30, 2006 and 2005

This section of the Virginia Small Business Financing Authority's (the "Authority") annual financial report presents management's discussion and analysis of the VSBFA's financial performance during the fiscal years that ended June 30, 2006 and 2005. Please read it in conjunction with the Authority's financial statements, which follow this section. The annual financial report consists of three parts, management's discussion and analysis, the footnotes and the basic financial statements.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2006

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2006 and June 30, 2005. M = million K = thousand

- Total assets decreased \$8.4M (-22%)
- Loans receivable decreased \$1.4M (-17%)
- Restricted assets associated with the CAP programs increased \$160K (20%)
- Total liabilities decreased \$900K (-14%)
- Total net assets decreased \$7.5M (-1%)
- Investments held in the LGIP decreased \$568K (-15%)
- Investment income from interest earned on cash balances increased \$63K (15%)
- Interest and other operating income decreased \$195K (-22%)
- Transferred \$133K from VSBFA Operating/LGP Fund to VCAP
- Transferred all assets of the State EDLF to Virginia Community Capital \$7,876,038

Primary factors that contributed to these changes were as follows:

- Total assets decreased \$8.4M due to the loss of the State EDLF (\$7.8M and the associated Securities Lending money \$1M).
- Total liabilities decreased \$900K due to the \$1.4M decrease in Securities Lending Transaction liabilities which was partially offset by a \$500K increase in Other Liabilities associated with the increased funding of the Capital Access Programs reserve accounts held at the participating banks to fund their loan loss reserve pools.
- Total Net assets decreased \$7.5M due to the loss of the State EDLF (\$7.8M) and the associated Securities Lending money (\$1M) which was partially offset by the income earned by the funds (\$377K).

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
Management's Discussion and Analysis  
June 30, 2005 and 2004

Fiscal Year 2005

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2005 and June 30, 2004.

- Total assets increased \$3M (9%)
- Loans receivable increased \$3.6M (34%)
- Restricted assets associated with the CAP programs increased \$527K (26%)
- Received \$250K from Tobacco Commission to add to TCAP program
- Received \$300K from General Assembly for VCAP
- Received \$27,405 from DEQ for ECAF
- Total liabilities increased \$3M (73%)
- Total net assets increased \$488K (1%)
- Investments held in the LGIP increased \$2M (138%)
- Investment income from interest earned on cash balances decreased \$6K (1%)
- Interest and other operating income increased \$493K (127%)

Primary factors that contributed to these changes were as follows:

- Total assets increased \$3M due to the additional funding of \$577K from General Assembly, Tobacco Commission and DEQ, the increase in CAP reserve accounts \$527K, increase in notes receivable \$3.6M and the increase in operating revenues of \$493K.
- Total liabilities increased \$3M due to the increase in Other Liabilities associated with the increased funding of the Capital Access Programs reserve accounts held at the participating banks to fund their loan loss reserve pools and the increase in Obligations related to the Security Lending Program.

Total Net assets increase \$488K due to the increase in funding from the three sources listed in the first bullet listed above.

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
Management's Discussion and Analysis  
June 30, 2006 - 2004

**FINANCIAL ANALYSIS OF THE AUTHORITY**

The following table summarizes select financial information regarding the Authority's operations as of the dates and for the periods indicated:

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>	<u>2006 vs. 2005</u> <u>% Increase</u> <u>(Decrease)</u>	<u>2005 vs. 2004</u> <u>% Increase</u> <u>(Decrease)</u>
Cash and cash equivalents	\$6,792,191	\$12,914,131	\$15,208,758	(47%)	(15%)
Investments	\$6,222,400	7,560,943	6,331,134	(17%)	19%
Loans receivable	\$12,556,005	14,009,093	10,419,570	(10%)	34%
Restricted Assets	\$ 3,003,274	2,482,858	1,956,042	20%	26%
Other assets	<u>70,558</u>	<u>76,120</u>	<u>309,314</u>	<u>(7%)</u>	<u>(75%)</u>
Total assets	\$28,644,428	<u>\$37,043,145</u>	<u>\$33,982,880</u>	<u>(22%)</u>	<u>9%</u>
Obligations under SLP	\$2,138,149	3,571,027	1,499,316	(40%)	138%
Other liabilities	\$3,025,534	2,492,165	1,991,793	21%	25%
Total liabilities	<u>\$5,163,708</u>	<u>\$ 6,063,192</u>	<u>\$ 3,491,109</u>	<u>(14%)</u>	73%
Net Assets	\$23,480,720	\$30,979,953	\$30,491,771	(24%)	1%

Description of Net Assets The Authority's Net Assets are reported on the Statement of Net Assets. The Authority has Restricted Assets and Unrestricted Assets as described below:

1. Restricted – these net assets represent funds that have been received by the Authority for specific financing programs from the federal government, from the state government which represent required state matches for the receipt of those federal grants, funds that have been given to the Authority to administer on behalf of other state agencies which are restricted by federal grants or by state legislation, and funds that are restricted due to loan commitments, deficiency guaranties and loan portfolio insurance agreements that represent legal obligations of the Authority to the respective banks. In the consolidation of the Authority's Net Assets with the Commonwealth's financial statements, even these assets that are "restricted" in their use are considered Unrestricted. However, in this report the Authority will present them as Restricted and Unrestricted.
2. Unrestricted –For the FYE '06, unencumbered assets include the unencumbered assets of the VCAP (\$2,101), TCAP (\$227,318), DMBE's PACE (\$156,611) and the assets of ECAF (\$870,201) totaling \$1,256,231. For FYE '05 the unencumbered assets represented the cash and notes receivable of the state Economic Development Loan Fund.

Net Assets as of June 30, 2006 and 2005

	<b>2006</b>	<b>2005</b>
Restricted	\$22,224,489	\$23,072,192
Unrestricted	<u>\$ 1,256,231</u>	<u>\$ 7,907,761</u>
Total net assets	\$23,480,720	\$30,979,953



# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

## Management's Discussion and Analysis

June 30, 2006 and 2005

### Results of Operations for the Years Ended June 30, 2006 and 2005

	<b>2006</b>	<b>2005</b>
Operating revenues:		
Interest on loans receivable	\$574,618	\$667,897
Charges for sales and service	93,744	129,882
Other (recoveries)	16,089	80,853
Total operating revenues	\$684,451	\$878,632
Operating expenses:		
Personal services (11XX)	\$246,357	401,944
Contractual Services (12XX)	8,757	47,293
Distributions (Capital Access fee matches) (14XX)	311,460	531,824
Other (charge-offs/DPB directed expenses, TCAP Admin)	201,015	383,620
Total operating expenses	\$767,589	\$1,364,681
Net operating income	(\$83,138)	(\$486,049)
Non-operating revenues:		
Interest income	\$376,805	\$396,826
Total non-operating revenue	\$376,805	\$396,826
Transfers		
Operating transfers in	-0-	\$277,405
Operating transfers in from primary government	-0-	300,000
Operating transfers out to primary government	-0-	-0-
Operating transfers out-State RLF	\$7,876,038	
Total net transfers	\$7,876,038	\$577,405
<b>Change in net assets</b>	<b>(\$7,499,233)</b>	<b>\$488,182</b>

# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

## Notes to Financial Statements

June 30, 2006 and 2005

### **(1) Organization and Summary of Significant Accounting Policies**

#### **(a) Organization**

The Virginia Small Business Financing Authority (VSBFA) was created by the Virginia General Assembly in 1984 as a public body corporate and a political subdivision of the Commonwealth of Virginia. VSBFA is governed by an eleven-member board, appointed by the Governor of the Commonwealth of Virginia. VSBFA's major activities are to provide financial assistance to small businesses in the Commonwealth through bond issuances, direct loans, loan guaranties, portfolio loan loss reserves, and other assistance.

For financial reporting purposes, VSBFA is a component unit of the Commonwealth of Virginia. The accounts of VSBFA and other VSBFA administered state and federal funds, are combined to form the Component Unit - Proprietary Funds of the Commonwealth of Virginia. The financial statements of VSBFA include the activities of the Industrial Development Bond Program, the Loan Guaranty Program, the Child Care Financing Program, the federally funded Economic Development Loan Fund, the state funded Economic Development Loan Fund, the Small Business Environmental Compliance Assistance Fund, Small Business Growth Fund (Virginia Capital Access Program), the PACE Program of the Department of Minority Business Enterprise, and the Southside Tobacco Region Capital Access Program which are described in more detail in Section (2).

#### **(b) Basis of Accounting**

The Authority utilizes the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred. The accounts are organized on the basis of funds, which are set up in accordance with the authorizing act, the various grants, and agreements between the VSBFA and the other state agencies.

#### **(c) Accounting Changes**

Effective July 1, 2004, the Authority implemented GASBS Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The primary impact of the implementation of this statement on the Authority was the change in the classifications of fund equity from fund balance to net assets, which are also required to be further categorized between (1) Invested in capital assets, net of related debt, (2) Restricted by constraints placed on the net asset use:

- externally imposed by creditors, grantors, contributors, or laws or regulations of other governments
  - imposed by law through constitutional provisions or enabling legislation
- and, (3) Unrestricted.

**(d) Conduit Debt Obligations**

From time to time, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entity served by the bond issuance. Neither the Authority, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**(e) Loans Receivable**

Loans receivable are stated at their unpaid principal balance. The interest method is computed on a loan-by-loan basis, but is typically on the basis of actual days/365.

**(f) Allowance for Loan Losses**

The Authority has not made an allowance for Loan Losses in the past. Such losses are recognized when all rights and remedies have been exhausted. Each fund has its own history of default rates. The two revolving loan funds have suffered the greatest losses due to the nature of the “gap” funding and the typically subordinated collateral position taken to encourage private sector funding of these projects. Under our internal fund accounting management system, such allowances are made to the funds within the month that an account is deemed “at risk” for full collection. Receivables are charged-off when a 120-day delinquency is reached and we determine that repayment is deemed highly unlikely.

**(g) Compensation**

Compensation for all employees of the Authority is based upon the Commonwealth’s compensation plan. The Executive Director is an employee of the Commonwealth and is non-restricted. The remaining staff are employees of the Authority and are “restricted” in that their employment and compensation are tied to the various funds administered by the Authority. Compensation expense is charged to several of the programs that allow for such administrative costs. The Department of Business Assistance provides the administrative support to manage the payroll and compensation functions and contributed \$222,815 in FY ’06 toward the administrative expenses of the Authority.

**(h) Retirement Plans**

Employees of the Authority participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

**(i) Compensated Absences**

Authority employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused vacation and sick pay earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation and sick pay recognized as expense is the amount earned each year.

**(2) Description of Account and Fund Groups**

**(a) Industrial Development Bond Program**

The Authority is a conduit issuer of tax-exempt and taxable Industrial Development Revenue Bonds to provide creditworthy businesses with access to long-term, fixed asset financing for new and expanding manufacturing facilities and exempt projects, such as solid waste disposal facilities. During fiscal 2003, the Authority was given the legislative authority to issue bonds for qualified 501c3s for projects such as hospital expansions and school facilities. The repayment of the Authority issued bonds is the responsibility of the respective small business borrower and the financing of such bonds is provided by the private sector and not provided by the Authority or the Commonwealth. Neither the Authority nor the Commonwealth guarantee payment and, as described in Section 9-221 of the Code of Virginia, no bonds issued by Authority constitute a debt, liability, or general obligation of the Commonwealth. The Authority charges an annual administrative fee based upon the outstanding principal amount of the bonds it has issued, payable on each anniversary date of the closing of the bond issue. Such fees may vary upon the amount and type of issuance, but typically the issuance fee for a for-profit entity is one-eighth of one percent annually on the then outstanding principal balance of the loan supporting the bond. For bonds issued on behalf of 501c3s the annual fee is one-tenth of one percent annually on the then outstanding principal balance of the loan supporting the bond.

**(b) VSBFA Operating Fund/Loan Guaranty Program**

The Loan Guaranty Program provides guaranties up to the lesser of \$500,000 or 75% of a bank loan for lines of credit and short-term working capital loans. This program was funded by \$900,000 of the initial \$1,000,000 appropriation received by the Authority in 1984. In 2002 and again in 2004, \$500,000 and \$600,000 respectively were transferred from the state Economic Development Loan Fund (EDLF (0921)) to provide for continued funding of the program. The Authority has set aside all of its total net assets of this fund (\$2,679,774) to support loan guaranties under this Program. The Loan Guaranty Program has guaranties outstanding of \$2,614,939 and commitments outstanding to banks in the amount of \$371,250. The Authority charges an upfront guaranty fee of 1.5% of the guaranteed portion of the loan. The net assets in this program are Restricted under the rules of GASBS #34 due to the formal commitments to provide guaranties to our participating lenders and the legal obligation to the Authority of such commitments. This program's funds are carried under the Authority's operating account which also receives the income from the bond program. During '06 \$133,000 was transferred from this fund to the Virginia Capital Access Program (VCAP) to keep VCAP funded and therefore operational a few more months. Effective July 1, 2006, the General Assembly appropriated \$1,250,000 to the Authority. \$500,000 of this appropriation was transferred to VCAP to recapitalize the program. The remaining \$750,000 is in the VSBFA/LGP fund.

**(c) Child Care Financing Program**

This program is funded by a federal Child Care and Development Block Grant received by the Virginia Department of Social Services. Under a Memorandum of Agreement the Authority is charged to administer the Child Care and Development Fund. Such administrative duties include creating the program, including the amounts and terms of such loans, processing loan applications, closing and funding of loans, marketing the loan program, and managing the loan portfolio. The Child Care Financing Program offers regulated childcare providers or pending regulated providers low-interest installment loans to fund quality enhancement projects or projects to meet or maintain state or local child care requirements, including health, safety and fire codes. A provider must be either a family day provider or operate a child care center. At June 30, 2005 the Authority had \$1,202 in unfunded commitments. Loan repayments must flow back into the fund to be used to fund future loans and the operating expenses to administer the program. As such, the net assets of this fund are Restricted due to the restraints imposed by the federal grant (GASBS #34) and the MOA mentioned above.

**(d) Federal Revolving Loan Fund (0243)**

The Virginia Economic Development Loan Fund provides loans generally up to \$1,000,000 to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention. The Virginia Defense Conversion Revolving Loan Fund provides loans up to \$1,000,000 to assist defense-dependent companies seeking to expand into commercial markets and diversify their operations. Loans can be made to Virginia businesses and to economic development authorities. In an effort to assist our distressed communities, the amount and terms of the loans can be higher and less restrictive for the economic development authorities. The ELDF was capitalized by three U.S. Economic Development Administration (EDA) grants and the required state matching funds, which are restricted to this fund to be in compliance with the original terms and conditions of the EDA grants. The monies in this program are *non-general funds*. Additionally, in FY 1998 the majority of loans in this fund were sold to raise additional cash to provide funding for future loans. \$4,380,059 in loans were sold generating cash of \$3,206,284 after discounts. As of June 30, 2006, the Authority had \$2,794,038 in unfunded commitments. The net assets in this fund are Restricted due to the restraints imposed by the federal grant (GASBS #34).

**(e) State Revolving Loan Fund (0921)**

The Virginia Economic Development Loan Fund (EDLF) provides loans generally up to \$1,000,000 to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention. §59.1-284.2 states “There shall be a permanent revolving fund known as the Virginia Economic Development Revolving Fund. The Fund shall be comprised of (i) sums appropriated to it by the General Assembly, (ii) receipts by the Fund from loans made by it, (iii) all income from the investment of moneys held by the Fund, and (iv) any other sums designated for deposit to the Fund from any source, public or private. The Fund shall be administered and managed by the Authority.....” Loans can be made to Virginia businesses, local governments, and to economic development authorities. In an effort to assist our distressed communities, the amount and terms of the loans can be higher and less restrictive for the economic development authorities. This fund was created by appropriations over several years from the General Assembly and is considered *non-general funds*. Such appropriations were to be used specifically to fund economic development

projects undertaken by local governments or businesses to assist in the creation or retention of jobs.

In support of Governor Warner's *Virginia Works* initiative, the General Assembly approved the granting of the assets of this fund (cash and notes receivable) to a "to-be-formed community development bank". The fund was abolished effective July 1, 2005 and the assets, totaling \$7,876,038, of the fund were transferred to Virginia Community Capital in November 2005.

**(f) Small Business Environmental Compliance Assistance Fund (0930)**

This program is funded by the Department of Environmental Quality (DEQ). The Authority administers the Fund for DEQ pursuant to a tri-party cooperative agreement between the Authority; the Department of Business Assistance, and DEQ. Under this agreement the Authority is charged to administer the Fund. Such administrative duties include creating the program, including the amounts and terms of such loans, processing loan applications, closing and funding of loans, marketing the loan program, and managing the loan portfolio. Under the enabling legislation, the DEQ fund provides direct loans to small businesses for the purchase of equipment to comply with the federal Clean Air Act, equipment to implement voluntary Pollution Prevention measures, or equipment or structures to implement Agricultural Best Management Practices. This program provides incentive financing with below market rates and favorable terms. Loans can be for as much as \$100,000. The Fund was initially capitalized with \$600,000 from DEQ and another \$3,025,641 was received in 2001. In FY 2002 and 2003 \$800,000 and \$2,050,000 were transferred to the primary government due to budget cuts. In 2005 an additional \$27,405 was received from DEQ to fund a new loan. As of June 30, 2006 the Authority had \$-0- in unfunded commitments. Loan repayments must flow back into the fund to be used to fund future loans and the operating expenses to administer the program.

**(g) Small Business Growth Fund aka Virginia Capital Access Program (0957)**

The Virginia Small Business Growth Fund, also known as the Authority's Virginia Capital Access Program (VCAP), provides a form of loan portfolio insurance for participating banks through special loan loss reserve accounts which are funded by loan enrollment premiums paid by the bank/borrower and matched by the Authority from the Fund. The monies in these loan loss reserve accounts are available to cover losses on loans enrolled by the participating bank. The Fund has been largely capitalized by state general fund appropriations, and VCAP was initially launched with \$74,717 from the Authority's operating account. In 2005 the Authority received a \$300,000 appropriation from the General Assembly to continue the funding of this program. During '06 \$133,000 was transferred from the Authority's operating/LGP fund to the Virginia Capital Access Program (VCAP) to keep VCAP funded and therefore operational a few more months. Effective July 1, 2006, the General Assembly appropriated \$1,250,000 to the Authority. \$500,000 of this appropriation was transferred to VCAP to recapitalize the program. The total balance of the loan loss reserve accounts at participating banks at June 30, 2006 and June 30, 2005 was \$2,419,085 and \$1,970,013 respectively. This balance includes premiums paid by the bank/borrower; matching contributions from the Fund; account interest earned; less any withdrawals to cover loan losses. The balances in the bank accounts are Restricted by the enabling legislation and the terms and conditions of the participating agreements executed by the Authority and the participating banks.

### **(h) Tobacco Southside Region Capital Access Program (0900)**

The Tobacco Capital Access Program (TCAP) provides a form of loan portfolio insurance for participating banks through special loan loss reserve accounts, which are funded by loan enrollment premiums paid by the bank/borrower and matched by the Authority from the Fund. The monies in these loan loss reserve accounts are available to cover losses on loans enrolled by the participating bank. The fund was capitalized by a transfer of money from the Tobacco Commission in June 2004. The total balance of loan loss reserve accounts at participating banks at June 30, 2006 was \$571,333. This fund provides an upfront matching fee of \$50,000 for each participating bank. As the bank enrolls loans, the associated Authority matching fee is subtracted from this upfront matching fee of \$50,000. Only when the Authority matching fees exceed the initial \$50,000 in funding will additional funds be transferred from the TCAP fund for future enrolled loans. If a participating bank fails to utilize the program within 12 months of the participation agreement, the \$50,000 and all accrued interest of the bank reserve account will be reverted back to the fund. The balances in the bank accounts are Restricted by the constraints placed upon the fund by the Tobacco Commission, the terms and conditions outlined in the Tri-party MOA, and the terms and conditions of the participating agreements executed by the Authority and the participating banks.

### **(i) P.A.C.E Fund (0901)**

This Department of Minority Business Enterprise (DMBE) fund provides credit enhancements to participating banks through a capital access program (CAP) as described under the Small Business Growth Fund or loan guaranties up to 90% as described under the Loan Guaranty Program. The Fund was initially capitalized with \$309,569 from DMBE. The administration of the cash holdings in the fund is pursuant to a tri-party cooperative agreement between the Authority, the Department of Business Assistance and DMBE. The Authority administers the accounting for the loan guaranties and enrolled loans under the CAP. DMBE is responsible for marketing, guaranty approvals, enlisting and executing participation agreements with the CAP banks and approving all claims under the guaranty aspect of the program. As of June 30, 2006 there was \$70,189 in outstanding guaranties and \$12,856 in CAP accounts under this fund. The net assets of the fund are restricted up to the amount of outstanding guaranties and the balances in the bank accounts are Restricted by the constraints placed upon the fund by DMBE, the enabling legislation, and the terms and conditions of the participating agreements executed by DMBE, the Authority and the participating banks.

### **(3) Non-restricted Assets**

The only non-restricted assets of the Authority as of July 1, 2006 are those cash assets of the VCAP (\$2,101), TCAP (\$227,318), DMBE PACE Fund (\$156,611) and ECAF (\$870,201). The other assets in the funds have been contractually restricted due to agreements and commitments.

2005 figures included the now abolished State EDLF (0921).

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
Current assets:		
Cash*	\$1,256,231	\$2,303,914
Investments	-0-	1,327,954
Loans receivable - CPLTD	-0-	476,296
Interest receivable – loans	<u>-0-</u>	<u>39,069</u>
 Total non-restricted current assets	 \$1,256,231	 \$4,147,233
Non-current assets:		
Notes receivable – LTD	-0-	2,435,663
 Total non-restricted assets	 -0-	 \$6,582,896

All other assets of the Authority are restricted in nature, either by agreements with other agencies and/or third party participants, legislation and laws.

#### **(4) Loans Receivable**

Substantially all loans receivable are secured by liens on business assets or personal assets and guaranties of majority business owners. Rates and terms vary depending upon the program and the market rates at the time of loan closing. Under the indirect financing programs such as Loan Guaranty, TCAP, and VCAP, the banks set their own rates and terms. Generally speaking, the direct loan programs have a maturity of 60-months from the date of closing.

#### **(5) Cash and Investments**

Cash includes cash on hand and amounts in checking accounts, which are insured by the Federal Depository Insurance Corporation or are collateralized under provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 et.seq. of the Code of Virginia (a multiple financial institution collateral pool). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments. At June 30, 2006 and 2005, the carrying amount of the Authority's balance was \$19,508 and \$19,383. The bank balance at June 30, 2005 was greater by \$45 due to 2 small outstanding checks. The immediate operating cash in the Authority fund (Bond and LGP) and the Child Day Care Program are on deposit at Wachovia and the balance of the



funds is on deposit with the LGIP. All other funds are invested with the Treasurer of Virginia.

The Authority held no investments as of June 30, 2006.

**(6) Securities Lending Transactions**

\$3,003,274 of the Investments held by the Treasurer of Virginia represents VSBFA's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

**(7) Relationships with the Department of Business Assistance**

The Executive Director of VSBFA is appointed by the Director of the Department of Business Assistance in accordance with Section 9-204 of the Code of Virginia. The Department of Business Assistance also provides VSBFA with office space and pays certain administrative expenses.

**(8) Surety Bond**

The Executive Director of VSBFA was covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence.