September 11, 2008

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 Charles J. Colgan
Chairman
Senate Finance Committee
10677 Aviation Lane
Manassas, VA 20110-2701

The Honorable Lacey E. Putney
Chairman
House Appropriations Committee
P.O. Box 127
Bedford, Virginia 24523

Dear Governor Kaine, Secretary Gottschalk, Chairman Colgan, and Chairman Putney:

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 2008 the VSBFA committed $5.28 million through its ten direct loan and credit enhancement programs to 145 small businesses or local Industrial or Economic Development Authorities. This represents a 16% increase in number of businesses assisted through loans. More importantly, VSBFA assisted Virginia's businesses by enabling total private debt, private equity, and other public debt of $35,225,136 as a result of VSBFA's participation in the projects. In addition, our loans produced an overall leveraging factor of $29:1 (private to public) during FY '08. The VSBFA also facilitated an additional $291.7 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 2,654 jobs. Many of those new jobs occurred in the state's most highly distressed regions, Southwest and Southside Virginia. Overall, the VSBFA portfolio returned $5.89 in one year for every $1 the Commonwealth has invested. Since inception, the VSBFA has assisted over 1,800 small businesses in creating and saving over 23,000 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. Lynda Sharp Anderson, Director, Virginia Department of Business Assistance
Mr. Leon Moore, Chairman of the Board, Virginia Small Business Financing Authority

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Management's Discussion and Analysis and
Basic Financial Statements and Supplementary Information
for the years ending June 30, 2008 and 2007

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Management's Discussion and Analysis
June 30, 2008 and 2007

This section of the Virginia Small Business Financing Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended June 30, 2008 and 2007. 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

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2008 and June 30, 2007.

- Cash & Investments (not including Securities Lending Program funds) decreased $4.3M (27%)
- Loans receivable increased $5.28M (55%)
- Restricted assets associated with the CAP programs increased $546K (18%)
- Investment income from interest earned on cash balances decreased $152K (21%)
- Interest and other operating income increased $166K (24%)
- Transferred $200K from VSBFA to VCAP to keep the program operational.
- The VSBFA operating account funded a new $1,000,000 loan
- Matching funds for CAP programs increased $200K (66%)
- Operating expenses show a credit of $262K due to clawback of CAP reserve accounts from inactive banks.
- Overall operating income increase from the loss of $274K in 2007 to a profit of $303 in 2007.

Primary factors that contributed to these changes were as follows:

- Notes receivable increased due to a new $1M loan in VSBFA and $6.4M in new loans in the EDLF, as a consequence cash decreased.
- Bank enrollment activity in the CAP programs, especially VCAP, was robust in 2008.
- Although cash holdings appear strong on this FYE statement, only $5.9M is uncommitted, and of this money, $4.9M is federal money that is restricted for special purpose lending.
- Operating income showed strong improvement due to only very nominal charge-offs, a small decrease in expenses and the clawback activity which offsets the matching grants under the CAP program.
- Total income declined $818K (46%) due to not receiving any bump in program funds offset by increased operating income.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Management's Discussion and Analysis
June 30, 2007 - June 30, 2006

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2007 and June 30, 2006.

- Total assets increased $2.6M (10%)
- Cash & Investments (not including Securities Lending Program funds) increased $5.4M (54%)
- Loans receivable decreased $2.9M (-23%)
- Restricted assets associated with the CAP programs increased $227K (8%)
- Total liabilities increased $1M (21%)
- Total net assets increased $1.8M (8%)
- Investment income from interest earned on cash balances increased $258K (56%)
- Interest and other operating income increased $20K (3%)
- Transferred $133K from VCAP back to the VSBFA operating account to repay loaned funds.
- The VSBFA operating account received appropriation of $1,250,000 from GA. $500K was put in VCAP and remaining $750K was put in new State Direct Loan Program and was used to fund one loan.

Primary factors that contributed to these changes were as follows:

- Total assets increased due to the $1,250,000 in appropriation received and from earnings on cash.
- Notes receivable decreased due to $3M note payoff in federal EDLF.
- Total liabilities increased $1M due to the increase in Securities Lending Transaction liabilities related to the increase in cash and 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. Both liability categories have a $ for $ offsetting match in assets for a net effect of -0-.
- Total Net assets increased $1.8M due to the appropriation of $1,250,000 and continuing revenues.
- During FY 2006 $133,000 was loaned from the VSBFA operating account to the VCAP fund to keep the program operational for a few more months. This loan was repaid in FY 2007.
- Enrollments in the VCAP program suffered after the program exhausted all of its funds. It took several months for the participating banks to restart their VCAP supported loan portfolios even after the $500K in funding was received from the GA. It is imperative that the programs of the Authority maintain adequate funding to provide our participating lenders the financial and operational comfort level needed for them to have such special government lending programs.
- Although income from notes receivable only increase a moderate $20K due to the large payoff of a Federal EDLF loan, the income on cash increased considerably to the offsetting $3M bump in cash holdings.

- Although cash holdings appear strong on this FYE statement, only $5.9M is uncommitted, and of this money, $4.9M is federal money that is restricted for special purpose lending.
- The DMBE PACE fund exhausted all of its funds during July 2007 and at present is no longer being marketed.
- The State Direct Loan Program received $750K, all of which was used to fund an economic development project.

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:

	June 30 2008	June 30, 2007	June 30, 2006	2008 vs 2007 %Increase (Decrease)	2007 vs 2006 % Increase (Decrease)
Cash and cash equivalents	6,511,097	11,322,492	$6,792,191	(42%)	67%
Investments	6,494,739	7,317,797	$6,222,400	(11%)	18%
Loans receivable	14,891,228	9,611,160	$12,556,005	55%	(23%)
Restricted Assets (CAP accounts)	3,776,661	3,230,261	$ 3,003,274	17%	8%
Other assets	34,567	29,878	70,558	17%	(58%)
Total assets	31,708,292	31,511,588	$28,644,428	1%	10%
Obligations under SLT	1,676,797	2,983,752	$2,138,149	(44%)	40%
Other liabilities	3,822,479	3,273,330	$3,025,534	17%	8%
Total liabilities	5,499,516	6,257,463	$5,163,708	(12%)	21%
Net Assets	26,208,776	25,254,125	$23,480,720	4%	8%

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 commitments, deficiency guaranties and loan portfolio insurance agreements that represent legal obligations of the Authority to the respective banks.

   Federally restricted net assets managed by the Authority are the Child Care Financing Program and the Federal Economic Development Loan Fund. The Net Assets under these programs are $3,778,588 and $16,814,564 respectively.

   State net assets are "restricted" by deficiency guaranties and guaranty commitments. The restricted assets by fund are DMBE's PACE ($122,380) and VSBFA operating/LGP ($2,545,212). The VCAP fund has accrued payroll of $45,818 which will restrict that cash.

2. Unrestricted For the FYE '07, unrestricted net assets include VCAP ($173,728), TCAP ($107,263), DMBE's PACE ($19,062), ECAF ($960,769), and VCAP ($45,818 for accrued payroll). Loans receivable are included in the net assets.

Net Assets as of June 30, 2008 and 2007

	2007	**2007**
Restricted	$24,993,772	$22,627,942
Unrestricted	$ 1,215,004	$ 2,626,182
Total net assets	$26,208,776	$25,254,124

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Management's Discussion and Analysis
June 30, 2008 and 2007

Results of Operations for the Years Ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Interest on loans receivable	$571,946	$420,526
Charges for sales and service	259,490	227,121
Other (recoveries)	39,831	57,080
Total operating revenues	$871,267	$704,727
Operating expenses:		
Personal services (11XX)	$308,300	$315,663
Contractual Services (12XX)	20,224	38,447
Distributions (Capital Access fee matches) (14XX)	501,435	301,103
Other (charge-offs/DPB expenses, TCAP Admin)	261,674cr	323,687
Total operating expenses	$568,285	$978,900
Net operating income	$302,982	(274,173)
Non-operating revenues:		
Interest income	$563,676	$720,331
Total non-operating revenue	$875,759	$720,331
Transfers		
Operating transfers in	-0-	960,246
Operating transfers in from primary government	$ 78,893	1,250,000
Total net transfers	$ 78,893	$1,327,246
Change in net assets	**$954,651**	**$1,773,404**

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

For financial reporting purposes, the Authority is a component unit of the Commonwealth of Virginia. The accounts of the Authority and other Authority administered state and federal funds, are combined to form the Component Unit - Proprietary Funds of the Commonwealth of Virginia. The financial statements of the Authority include the activities of the Industrial Development Bond Program, the VSBFA fund (Bond program, Loan Guaranty Program and two VSBFA funded loans, the Child Care Financing Program, the Economic Development Administration 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 Authority 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. Each fund has its own history of default rates. EDA does not provide for Allowances in their RLFs. Charge-offs are made when we can ascertain the amount of loss expected. 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. For the other loan programs, receivables are charged-off when a 120-day delinquency is reached <u>and</u> we determine that repayment is deemed highly unlikely. For non-bankruptcy cases, our collections are sent to the OAG for collection and debts are reported as required under the Debt Set-Off Program.

(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 $250,306 in 2008 and $219,334 in FY '07 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. The monies collected are put in the VSBFA Operating account and are used to support the Loan Guaranty Program and some administrative costs.

See attached Trial Balance Bond Report for a listing of outstanding bonds issued by the Authority.

(b) VSBFA Operating Fund/Loan Guaranty Program/Loan 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 to support loan guaranties under this Program. The Loan Guaranty Program has guaranties outstanding of $2,567,740. There are no outstanding guaranty commitments as of the FYE. 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 ’08 $200,000 was transferred from this fund to the Virginia Capital Access Program (VCAP) to keep VCAP funded and therefore operational a few more months. In 2007 and 2008, $750,000 and $1,000,000 respectively, were disbursed from this fund for two economic development loans. Interest earned on the loans goes back into the fund. Presently there is a loan receivable balance of $1,731,575. We collapsed what we referred to as our "State Direct Loan Program" into this fund to more accurately state the financial condition of the VSBFA. Internally, for management purposes only, we keep a separate accounting of the bond, LGP and loan 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. 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 Economic Development Loan Fund (0243)

The Federal 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 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*. As of June 30, 2008 there was $2,172,649 in unfunded commitments. The net assets in this fund are Restricted due to the restraints imposed by the federal grant (GASBS #34).

(e) 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. As of June 30, 2008 the Authority had $50,200 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. We have been notified by DEQ that this fund will be discontinued at the end of the 2009 fiscal year. At that time all cash and receivables will be sent to DEQ to administer.

(f) 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 form 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 and the loan from the VSBFA was paid back. Again in 2008 the VSBFA had to loan $200,000 to this fund to keep it operational. The total balance of the loan loss reserve accounts at participating banks at June 30, 2008 was $3,776,661. 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.

(g) 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, 2008 was $550,230. 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.

(h) 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. During FY2007 Authority assumed all duties for the fund including the accounting for the loan guaranties and enrolled loans under the CAP, 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, 2008 there was $122,380 in outstanding guaranties and $169,870 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, 2008 are those cash assets and receivables of the VCAP ($127,910), TCAP ($107,263), DMBE PACE Fund ($19,062) and ECAF ($960,769). The other assets in the funds have been contractually restricted due to agreements and commitments.

	June 30, 2008	**June 30, 2007**
Current assets:		
Cash	504,707	$ 481,015
Investments	-0-	602,701
Loans receivable - CPLTD	199,956	220,391
Interest receivable – loans	1,349	2,420
Total non-restricted current assets	$ 655,812	$1,306,527
Non-current assets:		
Notes receivable – LTD	593,305	1,319,094
Total non-restricted assets	$1,249,117	2,625,621

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, although recently the Authority has been offering its economic development loans for terms of up to 10 years.

(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. Generally the immediate operating cash in the VSBFA fund (Bond, loan program and LGP) and the Child Day Care Program are on deposit at Wachovia in an amount sufficient to cover service charges and expected loan fundings. The VSBFA keeps some cash at a commercial bank to allow for ACH payments on loans. The excess operating money of the funds is held in two separate LGIP accounts. All other funds are invested with the Treasurer of Virginia.

(6) Securities Lending Transactions

$3,776,661 of the Investments held by the Treasurer of Virginia represents the Authority'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 the Authority is appointed by the Director of the Department of Business Assistance in accordance with Section 9-204 of the Code of Virginia. The Director of the Department of Business Assistance is a voting ex-officio member of the Authority's Board. The Department of Business Assistance also provides the Authority with office space and pays certain administrative expenses.

(8) Surety Bond

The Executive Director of the Authority 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.