

September 16, 2011

The Honorable Robert F. McDonnell  
Governor of the Commonwealth of Virginia  
Office of the Governor  
Patrick Henry Building, 3rd Floor  
1111 East Broad Street  
Richmond, Virginia 23219

The Honorable James S. Cheng  
Secretary of Commerce and Trade  
Patrick Henry Building, 4th 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 McDonnell, Secretary Cheng, 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 2011 the VSBFA committed \$5.29 million through its nine direct loan and credit enhancement programs. Forty-six small businesses or local Industrial or Economic Development Authorities benefitted from these loans and loan guaranties. More importantly, VSBFA assisted Virginia's businesses by enabling total private debt and private equity of \$35.9 million as a result of VSBFA's participation in the projects. This means that our loans produced an overall leveraging factor of \$6.78:1 (private to public) during FY '11 and the leveraging factor on our overall performance since the VSBFA's inception has been \$29:1. In FY '11, the VSBFA also facilitated an additional \$1.664 billion in private activity bond financings for manufacturers, 501 (c) 3 non-profits, and the public – private partnership between VDOT and Elizabeth River Crossings for the new Midtown Tunnel project in Norfolk/Portsmouth. The combined loan, loan guaranty, and bond financing assisted Virginia's businesses and non-profits in creating or retaining 1,151 jobs. Overall, the VSBFA portfolio returned \$5.89 in one year for every \$1 the Commonwealth has invested. Since inception, the VSBFA has assisted 2,033 small businesses in creating and saving over 24,874 jobs.

On behalf of the Board of Directors and staff of the Virginia Small Business Financing Authority, I want to thank you for giving us the opportunity to play a vital role in the economic recovery and job creation efforts of the Commonwealth. Through these financing programs, and others which we are discussing, we plan to work even harder to assist Virginia's financial institutions in providing the credit necessary for Virginia's businesses to grow.

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: Mr. Peter S. Su, Assistant Secretary of Commerce & Trade and Director, Virginia Department of Business Assistance  
Mr. Song Park, Chairman of the Board, Virginia Small Business Financing Authority

Attachments



**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, 2011 and 2010

# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
Management's Discussion and Analysis  
June 30, 2011 and 2010

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, 2011 and 2010. 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, 2011 and June 30, 2010.

- Cash and investments increased \$776K (10%).
- Cash not with the Treasurer increased more than \$1M (715%).
- Restricted assets associated with the CAP programs decreased \$572K (-32%).
- Charges for service income increased \$222K (46%).
- Charges for non-personnel expenses increased \$35K (233%).
- CAP matching fees were up \$12K (16%).
- Charge-offs were limited to \$29K (-94%).
- Interest on cash decreased \$81K (-39%).
- Interest earned on cash balances decreased \$54K (-21%)
- Transferred \$200K from VSBFA to VCAP to keep the program operational.
- Received \$1M from GA for VSBFA loan programs
- Allowance for bad debts increased \$27K (5% of notes receivable outstanding).

Primary factors that contributed to these changes were as follows:

- More payment on loans than loans funded.
- Cash in bank was significant due to large outstanding check.
- Some sizable 501C3 bonds had their first annual fee billing.
- Continued claims on CAP reserves.

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, 2010 and 2009. 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, 2010 and June 30, 2009.

- Cash and investments decreased \$1M (-6%).
- Loans receivable increased \$715K (5%).
- Restricted assets associated with the CAP programs decreased \$701K (-28%).
- Charges for service income increased \$170K (55%).
- Interest on loans decreased \$32K (6%).
- Other income was down \$54K (-70%).
- Interest earned on cash balances decreased \$54K (-21%)
- Transferred \$235K from VSBFA to VCAP to keep the program operational.
- Received \$250K from Tobacco Commission as final funding for TCAP.
- Salary expense increased \$38K (10%).
- CAP matching fees were down \$146K (-69%)
- Charge-offs of \$516K occurred for two EDLF loans. We expect to get a recovery of about \$150K on one of the charge-offs in the immediate future and the other charge-off is making interest payments on the debt as they restructure personal debt in bankruptcy court. We do expect some level of recovery on that debt.
- Allowance for bad debts of \$686,871 (5% of notes receivable outstanding). This is a new entry for 2010 and will continue in future reporting.
- Reflected a loss for the year of \$203K due to the two charge-offs and the allowance for bad debt.

Primary factors that contributed to these changes were as follows:

- Funded loans in the amount of \$2,860,570 brought cash balances down.

- Bank enrollment activity in the CAP programs was down and claims were up.
- Some sizable 501C3 bonds had their first annual fee billing.
- Other income decreased because recoveries and claw back activity was down.
- Income from cash was down due to reduced cash balances and lower interest rates.
- Overall income was down due to the significant fall in interest on cash and the fact that there was no claw back activity in 2010 and we had two charge-offs and began expensing for an allowance for bad debt.
- Salary expense was up due to the fact that VSBFA did not receive any financial assistance from VDBA in 2010.

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
Management's Discussion and Analysis  
June 30, 2010 - 2008

**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:

				% change	% change
	<b>6/30/2011</b>	<b>6/30/2010</b>	<b>6/30/2009</b>	<b>2011 vs 2010</b>	<b>2010 vs 2009</b>
Cash	9,705,506	\$7,765,494	\$8,358,452	25%	-7%
Investments	7,894,335	\$7,721,144	\$8,124,838	2%	-5%
Loans receivable (net)	13,588,979	\$13,050,543	\$13,022,381	4%	0%
Restricted Assets (CAP accounts)	1,231,800	\$1,803,699	\$2,504,679	-33%	-28%
Other assets (Interest Rec.)	33,287	\$38,453	\$48,617	-13%	-21%
<b>Total assets</b>	<b>32,423,907</b>	<b>\$30,379,333</b>	<b>\$32,058,967</b>	<b>7%</b>	<b>-5%</b>
Obligations under SLT	1,525,234	\$1,961,750	\$2,738,946	-6%	-28%
Other liabilities	1,278,814	\$1,851,565	\$2,550,792	-31%	-27%
<b>Total liabilities</b>	<b>4,022,457</b>	<b>\$3,813,315</b>	<b>\$5,289,738</b>	<b>5%</b>	<b>-28%</b>
 Net Assets	 28,401,450	 \$26,566,018	 \$26,769,229	 7%	 -1%

	<b>2011</b>	<b>2010</b>
Restricted	\$24,247,350	\$23,127,889
Unrestricted	\$4,154,100	\$3,438,129
 Total Net Assets	 \$28,401,450	 \$26,566,018

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 \$3,680,332 and \$17,242,168 respectively.

State net assets are “restricted” by deficiency guaranties, guaranty commitments, and loan commitments and MOUs. The restricted assets by fund are DMBE’s PACE (\$109,034), Tobacco Commission Capital Access Program (\$149,443) and DEQ’s Environmental Compliance Assistance Fund (\$749,730), and \$1,259,318 in outstanding guaranties and \$1,231,800 in outstanding checks and \$47,014 for accrued payroll.

2. Unrestricted For the FYE ’11, unrestricted net assets include VSBFA operating/State/LGP (\$4,090,876) VCAP (\$63,224). Net assets include notes receivable net of allowance (\$2,579,121).

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**

Management's Discussion and Analysis  
June 30, 2011 and 2010

Operating revenues:	<b>2011</b>	<b>2010</b>
Interest on loans receivable	\$580,392	\$548,995
Charges for sales and service	\$702,365	\$480,446
Other (recoveries)	\$17,294	\$23,025
 Total operating revenues	 \$1,300,053	 \$1,052,466
 Operating expenses:		
Personal services (11XX)	\$399,888	\$421,724
Contractual Services (12XX)	\$50,222	\$14,943
Distributions (Capital Access fee matches) (14XX)	\$85,373	\$72,607
Other (charge-offs/DPB expenses, TCAP Admin)	\$28,681	\$516,226
Allowance for Bad Debt	\$713,631	\$686,871
 Total operating expenses	 \$1,277,795	 \$1,712,371
 Net operating income	 \$22,258	 -659,905
 Non-operating revenues:		
Interest income	\$126,303	\$206,738
 Income before transfers	 \$148,561	 -\$453,167
 Transfers		
Operating transfers in (to VCAP and VSBFA)	\$287,794	\$235,000
Operating transfers out (to VCAP and CCFP)	-\$287,794	-\$235,000
Operating transfer in from Primary Gov't	1,000,000	\$250,000
 Total net transfers	 \$1,000,000	 \$250,000
 <b>Change in net assets</b>	 <b>\$1,148,561</b>	 <b>-\$203,167</b>

# VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

## **(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 a "state" loan fund), 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, less an allowance for loan losses. 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**

We have determined that a loss reserve of 5% of our notes receivable should be acceptable. If actual charges-offs exceed this amount, we will increase the allowance. Each fund has its own history of default rates. For the direct loan programs, receivables are charged-off when a 120-day delinquency is reached and 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. CAP programs are a loan loss program anyway and our guaranty programs set aside an 8% loss reserve for the LGP and a 10% loss reserve for the DMBE guaranties. In addition, if we deem a loan at risk under the guaranty programs, we deduct the full amount of the principal balance from the guaranty capacity calculation to be extra conservative.

### **(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 members 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 covers a small portion of one of the employees to compensate the VSBFA for the time spent working on DBA agency duties.

### **(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, with a cap of \$125,000. The monies collected are put in the VSBFA Operating account and are used to support the loan programs for the VSBFA 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 \$750,000 or 85% 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 \$2,316,643. 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. A portion of 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 '11 \$200,000 was transferred from this fund to the Virginia Capital Access Program (VCAP) to keep VCAP funded and to cover payroll expenses. \$1,000,000 was appropriated to the fund from the GA and \$87,794 was transferred in from our CCFP to reimburse fund for loan proceeds. During each of 2007, 2008, 2009 and 2010 funds were disbursed from this fund for economic development projects. Interest earned on the loans goes back into the fund. Presently there is a loan receivable balance of \$2,714,864, less \$135,743 for loan loss allowance, netting \$2,579,121. 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. At FYE loans receivable total \$1,072,833 less \$53,642 for allowance for bad debt, for net receivables of \$1,019,191, and there are outstanding commitments of \$650,759.

**(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*. Loans receivable totaled \$10,285,178, less allowance for bad debts of \$514,259 for net receivables of \$9,770,919 at FYE. 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. The program is no longer active at DEQ's request. At FYE the loans receivable totaled \$199,735 less allowance for bad debt of \$9,987 for

net receivables of \$189,748. The funds in this program are Restricted due to the MOU and legislated restrictions on the use of the funds.

**(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 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 and the loan from the VSBFA was paid back. Again in 2008 and 2009 the VSBFA had to loan \$200,000 and \$140,577 respectively to this fund to keep it operational. During 2010 \$235,000 was transferred to the fund from the VSBFA operating account to cover payroll processing and matches and \$200,000 was transferred in during 2011. The total balance of the loan loss reserve accounts at participating banks at FYE was \$619,922. 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. During 2010 the Tobacco Commission transferred in the final \$250,000 that had been approved for this fund. 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. At FYE there was \$537,571 in the reserve accounts.

**(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. At FYE there was \$50,000 in outstanding guaranties and \$74,307 in CAP accounts under this fund. The funds in this fund 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 June 30, 2011 are those cash assets and receivables of the VSBFA, (\$3,326,425), VCAP (\$111,704). These assets do have restricted money to cover outstanding checks and commitments. The other assets in the funds have been contractually restricted due to agreements, grants, legislation and commitments.

	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Current assets:		
Cash/Investments net of comm'ts	\$1,567,608	\$1,843,883
Loans receivable – CPLTD	349,998	179,302
Interest receivable – loans	<u>7,371</u>	<u>18,972</u>
Total non-restricted current assets	\$1,924,977	\$2,042,107
Non-current assets:		
Notes receivable – LTD	\$2,229,123	\$1,396,022

Total non-restricted assets	\$4,154,100	\$3,438,129
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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 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**

\$1,525,234 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. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

**(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.