VSBFA
Virginia Small Business
Financing Authority

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September 18, 2013

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 Walter A. Stosch
Chairman
Senate Finance Committee
4551 Cox Road, Suite 110
Glen Allen, VA 23060-6740

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

Dear Governor McDonnell, Secretary Cheng, Chairman Stosch, 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 2013 the VSBFA committed $12.9 million through its direct loan and credit enhancement programs, an increase of 2.38% over the previous fiscal year. One hundred, thirty-three small businesses or local Industrial or Economic Development Authorities benefitted from these loans and loan guaranties, an increase of 40% over the previous fiscal year. More importantly, VSBFA assisted Virginia's businesses by enabling total private debt and private equity of $64.8 million as a result of VSBFA's participation in the projects. This means that our loans produced an overall leveraging factor of $5.02:1 (private to public) during FY '13 and the leveraging factor on our overall performance since the VSBFA's inception has been $22:1. In FY '13, the VSBFA also facilitated an additional $233 million in private activity bond financings for manufacturers, and 501 (c) 3 non-profits. The combined loan, loan guaranty, and bond financing assisted Virginia's businesses and non-profits in creating or retaining 2,672 jobs, an increase of 202% from the previous year. Since inception, the VSBFA has assisted 2,240 small businesses in creating and saving over 27,179 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, we will continue to assist Virginia's financial institutions in providing the credit necessary for Virginia's businesses to grow and increase employment.

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

Respectfully,

Scott E. Parsons

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, 2013 and 2012

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Management's Discussion and Analysis
June 30, 2013 and 2012

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, 2013 and 2012. 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 basic financial statements and the notes to the financial statement.

FINANCIAL HIGHLIGHTS

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the years ended June 30, 2013 and June 30, 2012.

- For the first time in several years, the amount of money in Capital Access Program reserve accounts has increased (+$96K) due to increased usage by the banks and a slowdown of claims received.
- Notes receivable outstandings have shown a small increase due to increased activity $467K.
- Bond fees collected increased $172K over 2012.
- Interest on loans dropped $46K primarily due to lower interest rates.
- Overall operating revenues increased $120K (note bond fees).
- Operating expenses increased $79K due to an increase in CAP activity (CAP matches are expensed), and increases in payroll expense.
- Department of Minority Business Enterprise transferred $102,616 in additional funds to the P.A.C.E. program.
- Two new loan programs were introduced during the 2nd half of FY 2013 under the SSBCI Fund: *Cash Collateral Program* and *Loan Purchase Participation*. Cash collateral was funded in FY '13 for several loans totaling $690K. Activity is expected to be robust during FY 2014 and into 2015 as word of the program spreads in the lending community. *Loan Purchase Participation* has not generated much interest with the banks.

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, 2012 and 2011. 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, 2012 and June 30, 2011.

- Cash and investments increased $14,278K (81%) due to the $10.9M received as discussed below.
- The VSBFA received $5M from the Governor and the General Assembly.
- The VSBFA received $5.9M from the U.S. Treasury as a first installment under the State Small Business Credit Initiative (SSBCI).
- The VSBFA created two programs funded entirely by the SSBCI funds – A Capital Access Program and a direct loan program.
- The VSBFA received an additional $62,781 from the Department of Minority Business Enterprise to increase the PACE program funding.
- Notes receivables outstanding are down $2,734K (20%) due to normal payment activity, a large payoff and a significant drop in direct loan applications and approved loans.
- Accounts payable dropped due to the processing of a large bank wire that came in at FYE '11 for a loan payoff.
- There were no loan charge-offs or claims against guaranties during '12.
- Interest on loans decreased $50K (-9%).
- Interest earned on cash balances increased $12K (10%) due to higher balances.
- Transferred $100K from VSBFA to VCAP to keep the program operational and $33,629 to cover some payroll expenses.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Management's Discussion and Analysis
June 30, 2013 - 2011

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:

	06/30/2013	**6/30/2012**	**6/30/2011**	**% change 2013 vs 2012**	**% change 2012 vs 2011**
Cash	$12,447,114	$10,519,488	$9,705,506	19%	8%
Investments	$18,388,968	$21,358,286	$7,894,335	-14%	171
Loans receivable (net)	$11,267,556	$10,824,649	$13,588,979	4%	-20%
Restricted Assets (CAP accounts)	$1,265,395	$1,168,727	$1,231,800	9%	-5%
Other assets (Interest Rec.)	$25,723	$20,727	$33,287	25%	-38%
Total assets	$43,394,756	$43,891,877	$32,423,907	-2%	35%
Obligations under SLT	$906,899	$2,342,636	$1,525,234	-62%	-54%
Other liabilities	$1,314,727	$1,221,022	$1,278,814	8%	-5%
Total liabilities	$2,228,435	$3,592,249	$4,022,457	38%	-12%
Net Assets	$41,166,321	$40,299,628	$28,401,450	3%	42%

	2013	**2012**
Restricted	$35,777,155	$37,034,926
Unrestricted	$5,389,156	$3,264,702
Total Net Assets	$41,166,321	$40,299,628

<u>Description of Net Assets</u> 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. <u>Restricted</u> 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, the State Small Business Credit Initiative, U.S. Treasury, and the Federal Economic Development Loan Fund, Economic Development Administration. The Net Assets under these programs are $3,695,422, $5,805,413 and $18,185,498 respectively totaling $27,686,333.

State net assets are "restricted" by deficiency guaranties, guaranty commitments, and loan commitments. The restricted net assets by fund are VSBFA $8,075,822 in outstanding guaranties, and $15,000 in written loan commitments to Borrowers totaling $8,090,822.

2. Unrestricted For the FYE '13, unrestricted net assets include VSBFA operating/State/Microloan/LGP ($4,404,508), VCAP ($52,223), ECAF $604,101, TCAP $65,923 and PACE $262,401 totaling $5,389,156.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Management's Discussion and Analysis
June 30, 2013 and 2012

	2013	**2012**
Operating revenues:		
Interest on loans receivable	$484,214	$530,260
Charges for sales and service	$916,529	$741,384
Other (recoveries)	$17,023	$26,798
Total operating revenues	$1,417,766	$1,298,442
Operating expenses:		
Personal services (11XX)	$543,443	$520,340
Contractual Services (12XX)	$63,783	$54,961
Supplies (13XX)	$6,111	$2,299
Equipment (15XX)	$3,218	$4,926
Distributions (Capital Access fee matches) (14XX)	$107,683	$85,429
Other	$38	$1,480
Allowance for Bad Debt	$593,029	$569,719
Total operating expenses	$1,317,305	$1,239,154
Net operating income	$100,461	$59,288
Non-operating revenues:		
Interest income	$142,494	$137,923
Other	$1,276	
Income before transfers	$244,231	$197,211
Transfers		
Operating transfers in (intrafunds)	$155,541	$246,058
Operating transfers out (intrafunds)	-$205,416	-$287,794
Operating transfer in from Primary Gov't	$-0-	$5,000,000
Transfer in from U S Treasury	$-0-	$5,924,554
Transfer in from DMBE to PACE	$102,616*	$62,782
Total net transfers	$52,741	$10,987,336
*increased by $1 for rounding		
Change in net assets	**$296,972**	**$11,184,547**

(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, Micro Loan Program and a State EDLF), the State Small Business Credit Initiative funded CAP, Cash Collateral Program, Loan Purchase Participation, and direct loan program, 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.

(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 college and university foundations. 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 the 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.

In 2009 the VSBFA's legislation was amended to expand the definition of "Business Enterprise to include any "*entity acquiring, constructing, improving, maintaining, or operating a qualified transportation facility under the Public-Private Transportation Act of 1995 (§ 56-556 et seq)."* In the 2013-2014 budget there is language that documents an agreed upon fee structure for a road project financed by a bond that was approved by the VSBFA this year. It states: "*For the I-95 HOV/HOT Lanes project as evidenced by the Comprehensive Agreement approved pursuant to the Public-Private Transportation Act of 1995, the maximum fee and/or premium charged by the Virginia Small Business Financing Authority pursuant to §§ 2.2-2291 and 2.2-2285, Code of Virginia, for acting as the conduit issuer for any bond financing is not to exceed $25,000 per annum."*

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

(b) VSBFA Operating Fund/Loan Guaranty Program/Microloan Program/State EDLF

The Loan Guaranty Program provides guaranties up to the lesser of $750,000 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. In '07, '11 and '12 the GA provided additional funding of $1,250,000, $1,000,000 and $5,000,000 respectively. The Loan Guaranty Program has guaranties outstanding of $8,075,822 and a loan commitment in the amount of $15,000 at year end. 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 and loans to our participating lenders and the legal obligation to the VSBFA of such commitments. $4,404,508 is unrestricted.

In the biennial budget for 2012-2014 there is language that was intended to expand our ability to provide guaranties. The budget language states *"The Virginia Small Business Finance Authority is authorized to insure additional loans for eligible small businesses, pursuant to § 2.2-2290, Code of Virginia, up to an aggregate amount not to exceed four times the principal amount in the Insurance or Guarantee Fund, or up to an aggregate amount of $10,000,000,* ***whichever is less****. In the event that the authority is called upon to pay on guaranties of loans of more than 10 percent of the aggregate amount of all outstanding insured loans, the authority shall not insure any further loans and shall immediately notify the Governor and the Chairmen of the House Appropriations and Senate Finance Committees. Pursuant to § 4-1.03.5 of this act, the Director, Department of Planning and Budget, is authorized to transfer a sum sufficient to the Insurance or Guarantee Fund in the event the amount in the fund falls below the amount needed to honor any guarantee."*

The 2013 budget amendment states the following:

Increase the cap on the Insurance or Guarantee Fund Increases the cap on the Insurance or Guarantee Fund administered by the Virginia Small Business Financing Authority. The change will increase the cap from $10.0 million to $15.0 million.

This change allows the Authority to once again market the program and provide for additional guarantys.

This program's funds are carried under the Authority's operating account which also receives the income from the bond program. Earnings from the bonds and the continued funding from the GA have enabled the VSBFA to provide the capital for the State EDLF and the Microloan Program. In addition, during '11 $200,000 and in '12 $100,000 was transferred from this fund to the Virginia Capital Access Program (VCAP) to keep that program funded and operating. At FYE the State EDLF had notes receivables of $993,134. The Microloan Program has $950,200 in notes outstanding and $15,000 in commitments at year end.

(c) State Small Business Credit Initiative (0715)

On August 15, 2011 we entered into an agreement with the U.S. Treasury to accept Virginia's allocation of the money available under the State Small Business Credit Initiative (SSBCI). Virginia has been approved to receive up to $17,953,191 in three tranches. The first was received in the amount of $5,924,554. Under our SSBCI program, the VSBFA will be offering a CAP and a direct “gap” loan program to provide up to 40% of a project’s financing or $500,000, whichever is less. The SSBCI anticipates participating states to reach a leverage of private sector dollars to SSBCI dollars of 10:1. 80% of a tranche must be used or committed before the state can request an additional tranche. All monies must be advanced from the Treasury by March 31, 2017. During this fiscal year the Authority amended its plan to allow for a Cash Collateral Program (CCP) and a Loan Purchase Participation (LPP) program. The CCP has generated much interest with the line officers. At year end the VSBFA had utilized $83,807of the funds for CAP loans and $690,000 for CCP. All of these federal dollars are Restricted.

(d) Child Care Financing Program (0380)

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 $721,469 and $122,532 in loan commitments.

(e) 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 EDLF 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 $9,124,952 and $3,316,324 in commitments. The net assets in this fund are Restricted due to the restraints imposed by the federal grant (GASBS #34).

(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 was inactive for sometime at DEQ's request, but at the start of the calendar year they gave us permission to start marketing the program again. At FYE the loans receivable totaled $171,640 and $94,680 in commitments. The Net Assets in this program are considered unrestricted.

(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 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 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. $200,000 was transferred in during 2011 and $100,000 in 2012 for matching fees. The total balance of the loan loss reserve accounts at participating banks at FYE was $538,275. 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. Only $52,233 is considered unrestricted. Since we received the SSBCI funding for a CAP, this fund is typically only used for eligible "double matches" and for loan purposes that do not meet the federal requirements.

(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. 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 can 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 VSBFA and the participating banks. At FYE there was $543,423 in the reserve accounts. Only $65,923 is considered unrestricted.

(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. 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 were no outstanding guaranties and no money left in CAP reserve accounts under this fund. Another $102,616 was transferred into this fund in FY '13. Management is working with DMBE to see if some of the language in the Code can be changed to make this program more easily accessible to the banks. $262,401 is unrestricted.

(3) Non-restricted Assets

The only non-restricted assets of the VSBFA as of June 30, 2013 are those cash assets of the VSBFA, ($4,404,508), VCAP ($52,233), ECAF ($509,421), TCAP ($65,923) and PACE ($262,401), the notes receivables and accrued interest. The other assets in the funds have been contractually restricted due to agreements, grants, legislation and commitments.

	June 30, 2013	**June 30, 2012**
Current assets:		
Cash/Investments net of comm'ts	$5,294,486	$3,264,702
Loans receivable – CPLTD	828,215	147,581
Interest receivable – loans	7,802	7,562
Total non-restricted current assets	$6,130,503	$1,924,977
Non-current assets:		
Notes receivable – LTD	$1,185,949	$2,491,139
Total non-restricted assets	$7,316,452	$4,416,116

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.

(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 Wells Fargo and SunTrust 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 three separate LGIP accounts. All other funds are invested with the Treasurer of Virginia.

(6) Securities Lending Transactions

$906,899 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.