VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

Management's Financial Statements and Supplementary Information

for the Fiscal Years ending June 30, 2021 and 2022

(Unaudited)

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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Management's Responsibility for the Financial Statements

The financial statements, management discussion and notes which follow have not been prepared or audited by a certified public accountant. The management of the Virginia Small Business Financing Authority ("VSBFA" or the "Authority") is responsible for the preparation and presentation of these financial statements, management discussion and notes which follow and for the implementation and maintenance of internal controls relating to the preparation and fair presentation of financial statements which are free from material misstatement, whether due to fraud or error.

In management's opinion, the financial statements, management discussion and notes presented herein present fairly, in all material respects, the financial position of the Virginia Small Business Financing Authority as of June 30, 2021 and June 30, 2022 and the changes in net position from the 2021 fiscal year-end to the 2022 fiscal year-end.

Non-GASB Compliant Financial Statements

These statements have been prepared with generally accepted accounting principles in mind; however, these statements do not meet all U.S. Governmental Accounting Standards Board (GASB) requirements and therefore cannot be considered to be fully compliant with GASB.

GASB 70 and Significant Reporting Methodology

- The Authority's *SSBCI Cash Collateral Program* utilizes reserve accounts owned by the Authority and established at participating banks. VSBFA commits these reserve account funds for the support of specific loans for a specified period of time and up to a specified maximum amount. In the event of a loss on a defaulted CCP enrolled loan, the participating bank may – after liquidation of its primary collateral and completion of its collection efforts - file a claim with the Authority to request that the related CCP deposit be utilized to offset the bank's deficiency loss (or a portion thereof.)

- In accordance with GASB 70, funds held in *CCP* Reserve Accounts are recognized as Restricted Assets. The Authority does not record a liability and related expense against these *CCP* Reserve Accounts (Restricted Assets) unless there is a greater than 50% chance that the Authority will be required to make a future payment related to support provided under the *Cash Collateral Program*. In accordance with GASB 70 and in anticipation of potential claims on two loans supported through the *SSBCI Cash Collateral Program*, the Authority recorded, as of June 30, 2022, a Restricted Liability of $100,798 against the *SSBCI Cash Collateral Program* reserve accounts, which are reflected as Restricted Assets on the Authority's balance sheet.

- The Virginia Department of Accounts and the Virginia Auditor of Public Accounts have determined that the *CCP* reserves provided under the *Cash Collateral Program* constitute a non-exchange financial guarantee under the Governmental Accounting Standards Board (GASB) Statement No. 70. As defined by GASB 70, a non-exchange financial guaranty is typically provided by a government for the obligations of a private entity, not-for-profit organization or an individual, and the government providing the guarantee or support has not directly received equal or approximately equal value in exchange for that guarantee or support.

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Management's Discussion and Analysis

For the Fiscal Years ending June 30, 2021 and 2022

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, 2021 and June 30, 2022. Please read the information below 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 statements.

FINANCIAL HIGHLIGHTS

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the fiscal years ended June 30, 2021 and June 30, 2022.

- The overall credit quality of the Authority's direct loan and financing portfolios continued to be very strong. The Authority had no direct loan charge-offs during Fiscal 2022, compared with very nominal direct loan write-offs of $9,807 in Fiscal 2021.

- Operating revenues for the Authority increased by 47%, from $1,841,051 in Fiscal 2021 to $2,705,355 in Fiscal 2022, primarily as the result of increased bond fee revenues. Operating revenues for the Authority are derived from interest income on direct loans, application and program fees, and from annual bond fees collected on outstanding bond issuances. Bond fees collected fluctuate from year to year based on the activity within the Authority's various bond programs, conditions within the U.S. capital markets and U.S. Internal Revenue Service (IRS) regulations.

- After a 13.7% decline in operating expenses from Fiscal 2020 to Fiscal 2021, total operating expenses for the Authority increased 57.7% from $1,229,155 in Fiscal 2021 to $1,938,386 in Fiscal 2022. For the first time in four years, the Authority was fully staffed throughout Fiscal 2022, resulting in increased payroll expenses, which grew from $623,959 in Fiscal 2021 to $849,317 in Fiscal 2022.

- The largest increase within a single category of expenses during Fiscal 2022 was related to 501c3 bond fees shared with the Virginia localities where the project is located. Although the Authority has no obligation to do so, VSBFA currently shares 40% of its bond fee revenue from non-profit bond issuances with those localities where the non-profit bond project is located. Bond fees shared in Fiscal 2022 were $557,291 compared with $95,772 in Fiscal 2021.

- Non-operating revenues for the Authority are derived from interest income on cash balances. During Fiscal 2022, non-operating interest income fell from $107,757 in Fiscal 2021 to $82,761 in Fiscal 2022.

- On July 1, 2021, the U.S. Department of Commerce - Economic Development Administration (EDA) agreed to release its interest in the funds which comprise the Authority's *Economic Development Loan Fund* Program as part of the recently enacted Reinvigorating Lending for the Future Act. As a result of the "defederalization" agreement executed between the Authority and EDA, the Authority is no longer obligated to provide semi-annual or annual reporting to EDA and certain usage and eligibility conditions included in the original EDA grants no longer apply. As a condition of the defederalization agreement, certain usage and eligibility conditions which dictate the use of these funds and the eligibility of borrowers using the program continue to apply.

- Outstanding direct loans for the Authority, before Allowance for Doubtful Accounts, fell slightly from $11,863,984 as of June 30, 2021 to $10,803,386 as of June 30, 2022. Outstanding direct loan commitments were $6,020,000 as of June 30, 2022, compared to $2,611,564 as of June 30, 2021.

- Reserve Accounts for the *SSBCI Cash Collateral Program, State Cash Collateral Program, SSBCI Capital Access Program,* and the *Virginia Capital Access Program* are classified as Restricted Assets on the Authority's balance sheet. Total Restricted Assets as of June 30, 2022 were $1,302,963 compared with $4,572,528 as of June 30, 2021.

- The Authority had no losses under its *SSBCI Cash Collateral Program* in either Fiscal 2021 or 2022. However, in Fiscal 2021, the Authority recorded a Restricted Liability of $381,698 against the Restricted Asset - CCP Reserve Accounts for potential claims relating to two troubled loans then supported under the *SSBCI Cash Collateral Program*. During Fiscal 2022, one of those loans was resolved by the participating lender and the CCP support provided by the Authority was subsequently terminated. As of June 30, 2022, the Restricted Liability recorded against the Restricted Asset - CCP Reserve Accounts was reduced to $100,178 to account for potential losses relating to one troubled loan supported by the *SSBCI Cash Collateral Program*.

- The Authority has one remaining loan supported by its now discontinued *State Cash Collateral Program* (*State CCP*). The reserve account associated with that loan fell from $210,816 as of June 30, 2021 to $168,750 as of June 30, 2022. The eligibility for the remaining loan supported by the *State CCP* program will end in Fiscal 2023.

- Reserve accounts associated with the *SSBCI Capital Access Program* fell slightly from $309,801 as of June 30, 2021 to $298,694 as of June 30, 2022. During Fiscal 2022, the Authority distributed $7,500 in matching reserve account contributions to participating *SSBCI Capital Access Program* banks, compared with matching contributions of $4,350 during Fiscal 2021. Claims under the *SSBCI Capital Access Program* increased slightly from $6,584 in Fiscal 2021 to $10,493 in Fiscal 2022. Contributions made to the *SSBCI CAP* Reserve Accounts are expensed in the year the participating lender enrolled the loan; consequently, no additional expense for these claims is recorded in the year in which the claim is processed.

- During Fiscal 2022, the remaining two reserve accounts associated with the Authority's *Tobacco Capital Access Program* ("TCAP") were closed given that all remaining TCAP enrolled loans had either matured or the TCAP support term had expired. In accordance with the Authority's Memorandum of Understanding with the Virginia Tobacco Commission, the funds remaining in those two TCAP reserve accounts were returned to the Tobacco Commission, net of a small amount due to the Authority for interest earned on the reserves.

- Amounts in reserve accounts associated with the Authority's *Virginia Capital Access Program* ("VCAP"), which was discontinued in 2016, fell to $10,000 as of June 30, 2022, compared with $63,510 as of June 30, 2021.

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For the Fiscal Years Ending June 30, 2021 and June 30, 2022

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:

	6/30/2022	6/30/2021	% change
Cash (Restricted and Unrestricted)	$24,900,966	$24,782,092	0%
Investments (Restricted and Unrestricted)	$23,376,746	$18,068,941	29%
Loans receivable (net of Doubtful Accounts)	$10,583,642	$11,621,650	-9%
Restricted Assets (SSCBI & State CCP Reserve Accts, SSBCI CAP, VCAP & TCAP Reserves)	$1,302,963	$4,572,528	-72%
Other assets	$13,945	$51,085	-73%
Total Assets	**$60,178,262**	**$59,096,296**	**2%**
Obligations under Securities Lending Program	$1,419,205	$1,163,504	22%
Restricted Liabilities (Support Obligations under CAP & Other)	$408,872	$1,015,752	-60%
Other Liabilities	$216,373	$237,430	-9%
Total Liabilities	**$2,044,450**	**$2,416,686**	-15%
Net Assets	**$58,133,812**	**$56,679,610**	**3%**

Net Assets	**FY22**	**FY21**	**% change**
Restricted	$47,351,003	$43,929,140	8%
Unrestricted	$10,782,809	$12,750,470	-15%
Total Net Assets	**$58,133,812**	**$56,679,610**	**3%**

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 Net restricted assets represent funds that have been received by the Authority for specific financing programs from various funding sources, including: funds which are administered by the Authority on behalf of other state agencies, funds which are restricted by federal or formerly federal grants or and VSBFA funds that are restricted due to commitments, deficiency guaranties and loan portfolio insurance agreements that represent legal obligations of the Authority to the respective participating banks.

   Federal or formerly federal restricted net assets managed by the Authority are the *Child Care Financing Program*, the *State Small Business Credit Initiative* (U.S. Treasury) and the *Economic Development Loan Fund* (U.S. Department of Commerce - Economic Development Administration). As of June 30, 2022, the Net Assets under these federally funded programs were $3,896,281, $14,419,020 and $21,163,865 respectively, totaling $ 39,479,166.

   VSBFA net assets are "restricted" funds administered by the Authority are VSBFA funds restricted as the result of deficiency guaranties, guaranty commitments, or unfunded state loan commitments. VSBFA restricted net assets as of June 30, 2022 totaled $7,871,837 which included $5,351,837 in outstanding *Loan Guaranty Program* guaranties and $2,520,000 in unfunded *State Economic Development Loan Fund* commitments.

2. Unrestricted - As of June 30, 2022, unrestricted net assets totaled $10,782,809, which included $6,941,933 in VSBFA Operating, $131,996 in *SSBCI Cash Collateral Program*, $2,360,939 in the State *Economic Development Loan Fund* program and State *Cash Collateral Program* and $1,347,941 in the *Microloan* Program.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ending June 30, 2021 and June 30, 2022

	FY22	FY21	% Change
Operating Revenues:			
Charges for sales and service	$ 2,323,594	$ 1,398,027	66.21%
Interest on loans receivable	$ 378,111	$ 441,125	-14.28%
Other (including recoveries)	$ 3,650	$ 1,899	92.21%
Total Operating Revenues	**$ 2,705,355**	**$ 1,841,051**	**46.95%**
Operating Expenses:			
Personnel services	$ 849,317	$ 623,959	36.12%
Contractual Services, including rent and supplies	$ 296,549	$ 232,247	27.69%
Distributions (Capital Access Program fee matching distributions)	$ 7,500	$ 4,350	72.41%
Bad Debt	$ -	$ 9,807	-100.00%
Other (bond fee sharing, additional CCP reserve and misc)	$ 785,020	$ 358,792	118.80%
Total Operating Expenses	**$ 1,938,386**	**$ 1,229,155**	**57.70%**
Net Operating Income	**$ 766,969**	**$ 611,896**	**25.34%**
Non-Operating Revenues:			
Interest income	$ 82,761	$ 107,757	-23.20%
Other non-operating revenue	$ (5,525)	$ 539	-1125.05%
Total Non-Operating Revenues	**$ 77,236**	**$ 108,296**	**-28.68%**
Net Income Before Transfers	**$ 844,205**	**$ 720,192**	**17.22%**
Transfers			
Net operating transfers (including intrafund transfers)	$ 93,003	$ 404,784	-77.02%
Total Net Transfers	**$ 93,003**	**$ 404,784**	**-77.02%**
Change in Net Assets	**$ 937,208**	**$ 1,124,976**	**-16.69%**

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Notes to Financial Statements
June 30, 2021 and 2022

(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 on rolling terms. The Authority's primary mission is to provide financing assistance to businesses in the Commonwealth through direct loans, loan guarantees, credit support programs, bond issuances, 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 VSBFA, federal and formerly 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 *SSBCI Cash Collateral Program* and the *SSBCI Capital Access Program* (funded through the U.S. Treasury), the *Child Care Financing* direct loan program (funded through the U.S. Department of Social Services in cooperation with the Virginia Department of Education), the *Economic Development Loan Fund* direct loan program (funded through the U.S. Department of Commerce - Economic Development Administration), the VSBFA funded *Economic Development Loan Program* direct loan program, the VSBFA funded *Microloan* direct loan program, the VSBFA funded *Loan Guaranty Program* and VSBFA's various tax-exempt and taxable bond programs. which are described in more detail below.

(b) Basis of Accounting

The Authority utilizes a modified accrual basis of accounting in preparing its financial statements where revenues are recognized when revenues when they become available and measurable and, where, with a few exceptions, expenditures are recorded when liabilities are incurred. The Authority's accounts are organized by fund based upon the Authority's various funding sources, and are established in accordance with the authorizing act, specific requirements associated with the federal or formerly federal funding source and with agreements between the Authority and other state agencies.

(c) Conduit Bond Issuances

From time to time, the Authority issues Tax-Exempt and Taxable Bonds to provide financing assistance to qualified private-sector businesses for the acquisition, improvement and or construction of facilities and equipment deemed to be in the public interest. In these transactions, bonds proceeds are provided either by private investors purchasing the bonds or by a bank purchasing the bonds for their own investment portfolio. As a conduit issuer, the Authority and the Commonwealth have no liability or obligation in any manner for repayment of the bonds. Accordingly, the Authority's outstanding bonds are not reported as liabilities in the accompanying financial statements.

(d) Loans Receivable

Loans receivable are stated at their unpaid principal balance, less an allowance for loan losses. Interest is computed and accrued on a loan-by-loan basis, on the basis of actual days/365.

(e) Allowance for Loan Losses

Loan loss reserves for the Authority's direct loan programs are established on a program-by-program basis, and are based upon expected future losses, if any, and the Authority's historical experience with the program. If actual charges-offs exceed the current reserve amount, the Authority will increase the allowance. For direct loan programs, receivables are typically charged-off when a 90-day delinquency is reached and when there has been a determination that repayment is deemed highly unlikely. For nonbankruptcy cases, the Authority's collections are sent to the OAG for collection and debts are reported as required under the Debt Set-Off Program.

Based upon the nominal losses incurred from the *Loan Guaranty Program* over the Authority's thirty-seven year history, the Authority has determined that a loss reserve of 2% of our notes receivable is appropriate given that our loan portfolios have continued to perform better than one might expect for a government lending program. If a loan guaranteed by the program is deemed at risk, the Authority will deduct the full amount of the principal balance from the guaranty capacity calculation in order to account for any potential loss from that specific transaction.

Funds distributed to banks through the Authority's *Cash Collateral* and the *SSBCI Capital Access* program fund loan loss Reserve accounts owned by the Authority at the participating program banks. By virtue of the nature of these programs, the Authority's liability is limited to funds distributed and maintained in these Reserve accounts; consequently, no additional allowance for loan losses is required for these programs.

(f) Employees, Funding for Staff Salaries and Employee Compensation

The Executive Director of the Authority is an employee of the Virginia Department of Small Business and Supplier Diversity and accordingly, the salary for this position is not an expense of the Authority.

The Authority receives no annual appropriation from the Virginia General Assembly for the remaining staff salaries, for program funding or for administrative expenses. Consequently, staff salaries for the remaining employees of the Authority and administrative expenses of the Authority are paid by the Authority from internally generally revenues.

Compensation for employees of the Authority is based upon the Commonwealth's compensation plan for state employees.

(g) 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.

(h) 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 Programs and Fund Groups

(a) Conduit Bond Programs

As previously noted, the Authority is a conduit issuer of tax-exempt and taxable Bonds, providing creditworthy businesses and 501c3 non-profits with access to long-term, fixed asset financing for new and expanding manufacturing facilities, and exempt projects, such as solid waste disposal facilities. The Authority also issues tax-exempt and taxable bonds for qualified tourism, transportation and school modernization projects.

The repayment of the bonds issued by the Authority is the responsibility of the for-profit or 501 (c)(3) not-for-profit borrower and neither the Authority nor the Commonwealth guarantees repayment of the bonds. Consequently, as described in Section 9-221 of the Code of Virginia, bonds issued by the Authority do not 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 501c3 non-profit organizations the annual fee is one-tenth of one percent annually on the then outstanding principal balance of the loan supporting the bond, with a current annual maximum fee cap of $250,000. Fees for bonds issued to finance transportation projects are currently capped at $25,000 annually.

Although the Authority is not obligated to do so, the Authority currently shares 40% of its bond fee revenue generated from 501(c)(3) non-profit bond issuances with the Virginia locality where the bond proceeds were utilized. The remaining revenues generated by bond fees are retained by the Authority and used to support VSBFA small business loan programs and to pay VSBFA administrative costs, including staff salaries.

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

(b) ***Loan Guaranty Program***

The *Loan Guaranty Program* is a credit support program funded internally by the Authority. The program provides deficiency guaranties of loans extended by private-sector lenders to eligible Virginia small businesses. Guaranties of up to the lesser of $1,000,000 or 75% are available for lines of credit (for a maximum duration of 5 years) and term loans (for a maximum duration of 7 years.) Loans guaranteed under this program are generally collateralized by a blanket lien on the assets of the small business borrower and may be additionally secured by specific liens on real property or equipment being acquired with the financing being provided by the private-sector lender. In some cases, real or personal property pledged by business owners is also provided to the lender as supplemental collateral. The program requires all small business owners with 20% or more ownership in the business to provide personal guarantees of the financing being provided by the lender. In the event of a default bv the small business borrower where the lender is forced to liquidate collateral, the lender must exercise its collection rights against all business and personal property, and against all guarantors before making a claim to the Authority for any remaining deficiency principal balance of the guaranteed loan(s.)

There were outstanding loan guaranties of $5,351,837 as of June 30, 2022, compared with outstanding guaranties of $5,085,913 as of June 30, 2021. There were no claims and no claim payments under the *Loan Guaranty Program* during Fiscal 2021 or Fiscal 2022.

Outstanding guaranties under the Authority's *Loan Guaranty Program* are a legal and binding obligation of the Authority based on agreements executed between the Authority, participating lender and small business borrower. Guaranties under the program are recognized as contingent liabilities and consequently, the amounts associated with these guarantees are considered a <u>Restricted</u> component of the Authority's operating funds.

(c) Microloan Program

The *Microloan Program* is a direct loan program for eligible Virginia small businesses which is funded internally by the Authority. The program, which currently provides direct loans up to a maximum of $50,000, had net outstanding loans of $356,494 as of June 30, 2022 and no outstanding unfunded loan commitments. Allowance for Doubtful Accounts for the *Microloan Program* at the Fiscal 2022 year-end were $11,026. The program had no charge-offs during Fiscal 2022, compared with $9,807 during Fiscal 2021.

(d) State Economic Development Loan Fund Program

This direct loan program is funded internally by the Authority and provides financing for significant economic development projects that are not eligible for financing thought the Authority's federal *Economic Development Loan Fund* because of non-credit compliance issues. The program provides direct loans in typical amounts from $500,000 to $2,000,000 to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention. The Authority considers loan limits at the higher end of that range depending upon the economic development benefits of the project, the strength of the borrower and the distress level of the locality in which the project is located. Loans can be made to Virginia businesses and to industrial or economic development authorities.

The *State Economic Development Fund* had $1,737,546 of net outstanding loans and $2,520,000 of outstanding loan commitments at the 2022 Fiscal year-end. Allowance for Doubtful Accounts for the program at June 30, 2022 were $35,460. There were no charge-offs in this program during the 2021 or 2022 Fiscal years.

(e) State Small Business Credit Initiative

On August 15, 2011, the Authority entered into an agreement with the U.S. Treasury to accept Virginia's allocation of the funding provided by the State Small Business Credit Initiative ("SSBCI"). The Authority received $18,034,394 in four funding tranches, the last of which was received in December 2016. Under a Memorandum of Agreement executed with the Virginia Center for Innovative Technology (CIT), the Authority subsequently transferred $3,000,000 in SSBCI funding to CIT between 2014 and 2017 to make qualified equity investments into eligible Virginia small businesses.

Having subsequently satisfied the requirements of the Allocation Agreement with the U.S. Treasury, the remaining $14,958,324 in SSBCI funds are now a permanent component of the Authority's capital base. These funds are classified as Restricted as the result of the continuing usage and eligibility constraints which govern the program, and as the result of the terms and conditions of the program agreements executed by the Authority and the banks participating in the *SSBCI Cash Collateral Program* (CCP) and the *SSBCI Capital Access Program* (SSBCI CAP).

SSBCI Cash Collateral Program Reserve Accounts aggregated $825,319 as of June 30, 2022. Of this amount $693,393 was obligated to support CCP enrolled loans and is classified as Restricted, and the remaining $131,996 in these reserve accounts related to interest accrued on cash and is classified as Unrestricted. There were no claims made and no claims paid in the *SSBCI CCP* program in either Fiscal 2021 or Fiscal 2022. As of June 30, 2022, the Authority recorded a Restricted Liability of $100,178 against the Restricted Asset - CCP Reserve Accounts for potential losses relating to one troubled loan supported by the *SSBCI Cash Collateral Program*.

SSBCI Capital Access Program Reserve Accounts totaled $298,694 as of June 30, 2022. Claims under the *SSBCI Capital Access Program* were $10,493 in Fiscal 2022 compared with $6,584 in Fiscal 2021. *SSBCI CAP* claim payments are made from existing *SSBCI CAP* Reserve Accounts, using funds which were previously expensed by the Authority. In the event of claims made by participating banks, the Authority has no additional liability beyond the previously expensed contributions made to these reserve accounts.

(f) State Cash Collateral Program

The *State Cash Collateral Program* ("*State CCP*") is a discontinued collateral support program which previously supported eligible loans at participating banks that have a deficiency in collateral and were not eligible for support through the *SSBCI Cash Collateral Program* because of non-credit compliance issues. At the 2022 Fiscal year-end, the Authority had *State Cash Collateral Program* Reserve account balances of $168,750 which supported one remaining loan under this now inactive program. These cash collateral deposits are Restricted based upon the agreement between the Authority and the participating lender.

(g) Child Care Financing Program

The *Child Care Financing Program* is a direct loan program funded by a federal Child Care and Development Block Grant originally received by the Virginia Department of Social Services and now administered by the Virginia Department of Education. The Authority administers the *Child Care Financing Program* in accordance with a Memorandum of Agreement with the Virginia Department of Education. The program offers qualified childcare providers no-interest direct loans up to $250,000 to fund quality enhancement projects or projects to meet or maintain state or local childcare requirements, including health, safety and fire codes. 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 June 30, 2022, there were net loans receivable of $728,419 and there were $31,187 in outstanding loan commitments. Allowance for Doubtful Accounts as of the 2022 Fiscal year-end was $14,866 and there were no charge-offs during the 2022 or 2021 Fiscal years.

(h) Federal Economic Development Loan Fund

The federal *Economic Development Loan Fund* program provides direct loans in typical amounts from $1,000,000 to $3,000,000 to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention. The Authority considers loan limits at the higher end of that range depending upon the economic development benefits of the project, the strength of the borrower and the distress level of the locality in which the project is located. Loans can be made to Virginia businesses and to industrial or economic development authorities.

The EDLF was originally capitalized by three U.S. Department of Commerce - Economic Development Administration (EDA) grants and required state matching funds. On July 1, 2021, the U.S. Department of Commerce - Economic Development Administration (EDA) agreed to release its interest in these federal funds as part of the recently enacted Reinvigorating Lending for the Future Act. As a result of the "defederalization" agreement executed between the Authority and EDA, the Authority is no longer obligated to provide semi-annual or annual reporting to EDA and certain usage and eligibility requirements of the original grant funding are no longer applicable.

As a condition of the defederalization agreement, the Authority has a continuing obligation to comply with certain terms and conditions which restrict the eligibility and usage of the loans funded by this program and which restrict the eligibility of the borrowers using the program. Consequently, the cash and loans receivable which comprise this fund are considered Restricted in their entirety as a result of the continuing compliance requirements stipulated by the defederalization agreement.

Total assets of the fund were $22,574,634 as of June 30, 2022, compared with $21,974,430 as of June 30, 2021. Net loans receivable totaled $7,761,183 as of June 30, 2022 and there were $3,500,000 in outstanding loan commitments at that date, compared with net receivables of $8,889,274 and $663,247 in outstanding loan commitments as of June 30, 2021. Allowance for Doubtful Accounts was $158,392 at June 30, 2022 and there were no charge-offs during Fiscal 2022.

(g) Virginia Capital Access Program

Until the program was discontinued in 2016, the Authority's *Virginia Capital Access Program* ("VCAP") provided a form of loan portfolio insurance for participating banks through special loan loss reserve accounts which were funded by loan enrollment premiums paid by the bank/borrower and matched by the Authority. The remaining funds relate to an amount held in the remaining VCAP reserve account. The aggregate balance of the remaining VCAP loan loss Reserve account at Fiscal 2022 year-end was $10,000 which continues to support the loans which remain enrolled in the program.

(h) Tobacco Southside Region Capital Access Program

The *Tobacco Capital Access Program* ("TCAP") was discontinued effective November 16, 2015; however, funds continued to be maintained in remaining reserve accounts after that time in order to support outstanding loans still then enrolled in the program. During fiscal 2022, all remaining enrolled loans in the TCAP program were either repaid or were no longer eligible for continued enrollment in the program. Aggregate TCAP balances of $260,910 were withdrawn from the three remaining TCAP Reserve Accounts and the accounts were subsequently closed. Per the Authority's Memorandum of Agreement with the Virginia Tobacco Commission, $258,135 of that amount was transferred back to the Commission in November 2021 and in May 2022 and $2,765, representing a portion of the interest earned on the funds previously held in the TCAP accounts, was transferred to VSBFA's Operating Account. As of June 30, 2022, the fund had a zero balance and has been officially closed.

(3) Loans Receivable

All direct loans made directly by the Authority are secured by liens on business assets of the borrower or benefiting business. Loans may be additionally secured by specific liens on real property or equipment being acquired and, in some cases, by personal assets of the guarantor(s). In the cases of loans made directly to small businesses, personal guaranties of all majority business owners are also required. Loans made to a locality's Economic Development Authority or Industrial Development Authority for economic development projects may include the Moral Obligation of that locality. Rates and terms vary depending upon the program and the market rates at the time of loan closing.

(4) Cash and Investments

Cash includes cash on hand and amounts in checking accounts not held by the state Treasurer 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.

Funds held in the Authority's general and program-specific operating accounts are on deposit at Wells Fargo in an amount sufficient to fund upcoming operating expenses or anticipated loan or credit support disbursements. Funds not immediately needed for operating or program-specific purposes are held in Local Government Investment Pool accounts managed by the Virginia Treasurer's Office.

(5) Securities Lending Transactions

As June 30, 2022, the Authority had Cash Equivalents of $1,419,205 in the Virginia Treasury's Securities Lending Program, which were offset on the Authority's Balance Sheet by a corresponding liability of the same amount.

(6) Relationship with the Department of Small Business and Supplier Diversity

The Authority is a division of the Virginia Department of Small Business and Supplier Diversity ("SBSD.") During Fiscal 2022 the Authority paid rent of $45,860 to SBSD in addition to costs for computer equipment and information technology services which were paid to VITA through SBSD.

The Executive Director of the Authority is appointed by the Director of the Department of Small Business and Supplier Diversity in accordance with Section 9-204 of the Code of Virginia. The Director of the Department of Small Business and Supplier Diversity is a voting ex-officio member of the Authority's Board.

(7) Surety Bond

The Executive Director of the Authority is 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.