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, 2022 and 2023

(Unaudited)

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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Management's Financial Statements

For the Fiscal Years ending June 30, 2022 and 2023

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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, 2022 and June 30, 2023 and the changes in net position from the 2022 Fiscal year-end to the 2023 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, since there were no claims anticipated through the *SSBCI Cash Collateral Program*, as of June 30, 2023, the Authority recorded no Restricted Liability 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.

VIRGINIA SMALL BUSNESS FINANCING AUTHORITY

Management's Discussion and Analysis

For the Fiscal Years ending June 30, 2022 and 2023

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, 2022 and June 30, 2023. 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, 2022 and June 30, 2023.

- Total assets for the Authority nearly doubled from $60.1 million at the Fiscal 2022 year-end to $114.9 million at the Fiscal 2023 year-end as VSBFA received the first of three tranches of funding from the U.S. Treasury's *State Small Business Credit Initiative 2.0* Program. Originally created by the U.S. Small Business Jobs Act of 2010, the SSBCI 2.0 Initiative was reauthorized and expanded in 2021 as part of the American Rescue Plan (also known as the COVID19 Rescue Plan.) Under the *State Small Business Credit Initiative 2.0* (SSBCI 2.0), the Authority will be the recipient of up to $230,435,003 in federal funding through an Allocation Agreement executed on November 4, 2022 with the U.S. Treasury. Under the terms of that agreement, the Authority will administer the SSBCI 2.0 Initiative until the program's conclusion on September 30, 2031.

- The total funding available to the Authority under the SSBCI 2.0 Allocation Agreement requires the Authority and its funding partners to meet certain deployment requirements pertaining to businesses considered "very small" (with nine or fewer employees) and to businesses owned by Socially and Economically Disadvantaged Individuals (SEDI, as defined by U.S. Treasury guidelines). The Allocation Agreement also stipulates that the Authority deploy at least eighty percent of the first tranche of funding before the Authority may request an additional second tranche of SSBCI 2.0 funding.

- On December 23, 2022, the Authority executed a Memorandum of Agreement (MOA) with the Virginia Innovation Partnership Corporation (VIPC) which provides for a reallocation of up to approximately $174 million of SSBCI 2.0 funding to VIPC over the course of the 2.0 program which ends in 2031. Under the terms of the MOA, VIPC will utilize SSBCI 2.0 funding to make direct and indirect equity investments into eligible Virginia small businesses in accordance with SSBCI 2.0 policies and guidelines. The Authority made an initial transfer of $18,036,595 to VIPC on January 3, 2023 and future transfers will be made to VIPC as SSBCI 2.0 funding is deployed by VIPC for equity investments.

- Over the remaining term of the SSBCI 2.0 Initiative, the Authority is expected to ultimately retain up to $57 million in SSBCI 2.0 funding, which will be used to pay a portion of administrative expenses related to the program and fund an SSBCI 2.0 direct loan program as well as an SSBCI 2.0 *Cash Collateral Program.* The latter will be similar to the collateral support program created under the original SSBCI 1.0 Initiative but will have separate and distinct eligibility and usage requirements stipulated by the SSBCI 2.0 program. The Authority also anticipates utilizing up to $5 million of SSBCI 2.0 funding in partnership with three Virginia Community Development Financial Institutions (CDFIs.)

- Outstanding direct loans for the Authority increased 42% from $10,803,386 as of June 30, 2022 to $15,366,062 as of June 30, 2023. Outstanding direct loan commitments were $6,051,187 as of June 30, 2022 compared to $4,076,452 as of June 30, 2023.

- The overall credit quality of the Authority's direct loan and credit support portfolios continued to be very strong in Fiscal 2023. The Authority had no direct loan charge-offs during either fiscal year and also had no losses under its *SSBCI Cash Collateral Program* or its *Loan Guaranty Program* in either Fiscal 2022 or 2023.

- Total operating revenues for the Authority decreased by 37.55%, from $2,705,355 in Fiscal 2022 to $1,689,444 in Fiscal 2023, primarily as the result of decreased bond fee revenues. Bond fee revenues for Fiscal 2022 were higher than normal as the Authority's billing cycles for these fees resumed following the pandemic. Operating revenues for the Authority are derived from interest income on direct loans, program 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.

- Total operating expenses for the Authority decreased 14.69% from $1,938,386 in Fiscal 2022 to $1,653,691 in Fiscal 2023. This decrease is primarily due to the Authority's decision to discontinue the sharing of 501(c)(3) bond fee revenue from non-profit bond issuances with the Virginia localities where the non-profit bond project is located. Although the Authority has had no obligation to do so, the Authority has been sharing revenues from its non-profit bond issuances. Given that the Authority receives no annual appropriation from the Virginia General Assembly for staff salaries or program funding, it was determined that the retention of these fees was critically important for the ongoing support of the Authority's operations. Expenses relating to bond fee sharing in Fiscal 2023 were $127,545 compared with $557,291 in Fiscal 2022. That decline in operating expenses was partially offset by increased payroll costs due to a small increase in staffing during Fiscal 2023.

- Non-operating revenues for the Authority are primarily derived from interest income on cash balances. During Fiscal 2023, non-operating interest income increased to $1,776,749 from $82,761 in Fiscal 2022. This increase was due to interest earned on balances maintained in Local Government Investment Pool (LGIP) accounts where cash balances from the Authority's State Small Business Credit Initiative (SSBCI 2.0) have been invested.

- Reserve Accounts for the *SSBCI Cash Collateral Program* and *SSBCI Capital Access Program* are classified as Restricted Assets on the Authority's balance sheet. Total Restricted Assets as of June 30, 2023 were $645,438 compared with $1,302,963 as of June 30, 2022.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

For the Fiscal Years Ending June 30, 2022 and June 30, 2023

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:

	6/30/2023	6/30/2022	% change
Cash (Restricted and Unrestricted)	$17,608,231	$24,900,966	-29%
Investments (Restricted and Unrestricted)	$81,558,318	$23,376,746	249%
Loans receivable (net of Doubtful Accounts)	$15,054,783	$10,583,642	42%
Restricted Assets (SSCBI & State CCP Reserve Accts, SSBCI CAP & VCAP Reserves)	$645,438	$1,302,963	-50%
Other assets	$25,917	$13,945	86%
Total Assets	**$114,892,687**	**$60,178,262**	**91%**
Obligations under Securities Lending Program	$1,103,482	$1,419,205	-22%
Restricted Liabilities (Support Obligations under CAP & Other)	$308,841	$408,872	-24%
Other Liabilities	$234,436	$216,373	8%
Total Liabilities	**$1,646,759**	**$2,044,450**	-19%
Net Assets	**$113,245,928**	**$58,133,812**	**95%**

Net Assets	**FY23**	**FY22**	**% change**
Restricted	$100,424,201	$47,351,003	112%
Unrestricted	$12,821,727	$10,782,809	19%
Total Net Assets	**$113,245,928**	**$58,133,812**	**95%**

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, 2023, the Net Assets under these federally funded programs were $3,978,426, $68,341,253 and $21,660,087 respectively, totaling $93,979,766.

   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, 2023 totaled $6,444,435 which included $4,457,062 in outstanding *Loan Guaranty Program* guaranties and $1,987,373 in outstanding *Loan Guaranty Program* commitments.

2. Unrestricted - As of June 30, 2023, unrestricted net assets totaled $12,821,727 which included $6,688,619 in VSBFA Operating, $4,415 in *SSBCI Cash Collateral Program*, $4,759,310 in the State *Economic Development Loan Fund* program and $1,369,383 in the *Microloan* Program.

	FY23	FY22	% Change
Operating Revenues:			
Charges for sales and service	1,224,806.00	$ 2,323,594	-47.29%
Interest on loans receivable	451,470.00	$ 378,111	19.40%
Other (including recoveries)	13,168.00	$ 3,650	260.77%
Total Operating Revenues	**$ 1,689,444**	**$ 2,705,355**	**-37.55%**
Operating Expenses:			
Personnel services	$ 1,240,074	$ 849,317	46.01%
Contractual Services, including rent and supplies	$ 209,024	$ 296,549	-29.51%
Distributions (Capital Access Program fee matching distributions)	$ -	$ 7,500	-100.00%
Bad Debt	$ 73,640	$ -	0.00%
Other (bond fee sharing, additional CCP reserve and misc)	$ 130,953	$ 785,020	-83.32%
Total Operating Expenses	**$ 1,653,691**	**$ 1,938,386**	**-14.69%**
Net Operating Income	**$ 35,753**	**$ 766,969**	**-95.34%**
Non-Operating Revenues:			
Interest income	$ 1,776,749	$ 82,761	2046.84%
Other non-operating revenue	$ 2,697	$ (5,525)	-148.81%
Total Non-Operating Revenues	**$ 1,779,446**	**$ 77,236**	**2203.91%**
Net Income Before Transfers	**$ 1,815,199**	**$ 844,205**	**115.02%**
Transfers			
Net operating transfers (including intrafund transfers)	$ 53,177,640	$ 93,003	57078.41%
Total Net Transfers	**$ 53,177,640**	**$ 93,003**	**57078.41%**
Change in Net Assets	**$ 54,992,839**	**$ 937,208**	**5767.73%**

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Notes to Financial Statements
June 30, 2022 and 2023

(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 non-bankruptcy 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* since the Authority's inception, 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 *SSBCI 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

Through mid-November 2022, the Executive Director of the Authority was 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. In mid-November 2022, the Authority's Executive Director retired, and his replacement began in March 2023. He is paid as an independent contractor via the Virginia Department of Small Business and Supplier Diversity, and accordingly, the salary for this position is still 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, and, in select cases, a portion of personnel expenses are paid by offsets against certain program funds as allowable by the funding source.

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 the 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 501(c)(3) 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, in the past, the Authority has previously shared 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 501c3 bond fees were retained by the Authority and used to support VSBFA small business loan programs and to pay administrative costs, including staff salaries. This sharing of 501c3 fee revenues was discontinued during Fiscal year 2023. Given that the Authority receives no annual appropriation from the Virginia General Assembly for administrative costs or program funding, it was determined that retention of these revenues was critically important in order to fund upcoming operational initiatives, including a new loan accounting system, and additional staffing positions.

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 $4,457,062 as of June 30, 2023 compared with outstanding loan guaranties of $5,351,837 as of June 30, 2022. There were no claims and no claim payments under the *Loan Guaranty Program* during Fiscal 2022 or Fiscal 2023.

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 Restricted 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 $150,000, had net outstanding loans of $383,881 as of June 30, 2023 and no outstanding unfunded loan commitments. Allowance for Doubtful Accounts for the *Microloan Program* at the Fiscal 2023 year-end was $11,873. The program had no charge-offs in the Fiscal years or 2022 and 2023.

(d) State (VSBFA) 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 $3,392,498 of net outstanding loans and $806,386 of outstanding loan commitments at the 2023 Fiscal year-end. Allowance for Doubtful Accounts for the program at June 30, 2023 was $69,235. There were no charge-offs in this program during the 2022 or 2023 Fiscal years.

(e) State Small Business Credit Initiative 1.0

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.

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 $336,597 as of June 30, 2023. Of this amount, $332,182 was obligated to support CCP enrolled loans and is classified as Restricted, and the remaining $4,415 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 2022 or Fiscal 2023. As of June 30, 2023, the Authority recorded no amounts of Restricted Liability against the Restricted Asset - CCP Reserve Accounts for potential losses, as there were no troubled loans supported by the *SSBCI Cash Collateral Program*.

SSBCI Capital Access Program Reserve Accounts totaled $298,841 as of June 30, 2023. Claims under the *SSBCI Capital Access Program* were $10,493 in Fiscal 2022 compared with none in Fiscal 2023. *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 Small Business Credit Initiative 2.0

The *State Small Business Credit Initiative* 2.0 (SSBCI 2.0) was reauthorized and expanded in 2021 as part of the American Rescue Plan (also known as the COVID19 Rescue Plan.) Under the *State Small Business Credit Initiative 2.0* (SSBCI 2.0), the Authority will be the recipient of up to $230,435,003 in federal funding through an Allocation Agreement executed on November 4, 2022 with the U.S. Treasury. Under the terms of that agreement, the Authority will administer the SSBCI 2.0 Initiative until the program's conclusion on September 30, 2031.

The Authority plans to ultimately retain up to $57 million in SSBCI 2.0 funding, which will be used to pay a portion of administrative expenses related to the program and fund an SSBCI 2.0 direct loan program as well as an SSBCI 2.0 *Cash Collateral Program.* The Authority's deployment of SSBCI 2.0 funding under these two new programs is anticipated to commence in January 2024.

(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, 2023, there were net loans receivable of $680,976, and there were no outstanding loan commitments. Allowance for Doubtful Accounts as of the 2023 Fiscal year-end was $13,897, and there were no charge-offs during the 2023 or 2022 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 no longer required to comply with some of the usage and eligibility requirements of the original grant funding.

Although these funds are now considered "defederalized," the Authority does have an ongoing obligation to comply with other terms and conditions stipulated by the original grant funding. Those terms and conditions continue to restrict the overall eligibility and usage of the loans funded by this 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 $22,755,476 as of June 30, 2023 as compared with $22,574,634 as of June 30, 2022. Net loans receivable totaled $10,597,428 as of June 30, 2023 and there were $2,984,000 in outstanding loan commitments at that date, compared with net receivables of $7,761,183 and $3,500,000 in outstanding loan commitments as of June 30, 2022. Allowance for Doubtful Accounts was $216,274 at June 30, 2023, and there were no charge-offs during Fiscal 2023.

(3) Loans Receivable

Direct loans made directly by the Authority are typically secured by blanket 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, 2023, the Authority had Cash Equivalents of $1,103,482 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 2023, the Authority paid rent of $3,240 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.