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, 2023 and 2024

(Unaudited)

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

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Management's Financial Statements

For the Fiscal Years ending June 30, 2023 and 2024

(Unaudited)

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, the 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, and the 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, 2023 and June 30, 2024 and the changes in net position from the 2023 Fiscal year-end to the 2024 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, 2024, 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, 2023 and 2024

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, 2023 and June 30, 2024. 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, 2023 and June 30, 2024.

- Total assets for the Authority increased from $114.9 million at Fiscal year-end 2023 to $121.5 million at Fiscal year-end 2024, a 6 percent increase. Included in both these amounts is $71,220,519 that VSBFA received in 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) (VSB) 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 no additional transfers were made in Fiscal year 2024. 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 of the $230 million in SSBCI 2.0 funding. These funds will be used to pay a portion of administrative expenses related to the program, and in June 2024, $208,504 in FY24 administrative expenses were reimbursed. The $57 million will also be used to fund an SSBCI 2.0 direct loan program called the *Capital Connect* Program and a collateral support program like the one created under the original SSBCI 1.0 Initiative. The cash collateral support program will have separate and distinct eligibility and usage requirements as 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.) Loans for no more than $2,000,000 at 0% interest will be transferred to three CDFIs in three disbursements per CDFI. The Authority executed a $1,000,000 loan agreement with the Community Investment Collaborative (CIC) on February 21, 2024, and the first disbursement of $309,078 was transferred to CIC on March 4, 2024. CIC will underwrite and award loans to Virginia small businesses in accordance with the *SSBCI Capital* Program *Policy Guidelines*. A subsequent disbursement will be made to CIC after 80% of the prior disbursement has been deployed. The Authority will seek to partner with two additional CDFIs to deploy another $4,000,000. The Authority anticipates launching the *SSBCI 2.0 Capital Connect* and *Cash Collateral* Programs in August 2024.

- The U.S. Treasury awarded $4,134,756 to the Authority on August 18, 2024 through a five-year SSBCI Technical Assistance (TA) Grant Program. Funds are to be transferred in three (3) tranches. The first tranche in the amount of $1,364,469 was received on August 28, 2023. The second tranche will be transferred to the Authority after 80% of the first tranche has been expended. Funds will be used to provide assistance to VSB and SEDI that are applying for, preparing to apply for, or have previously applied for an SSBCI capital program or other federal or other jurisdiction small business program. After a highly competitive process, the Virginia Small Business Development Center (SBDC) Network at George Mason University, The Launch Place, 757 Collab and the Community Investment Collaborative (CIC) received sub-awards to offer legal, accounting, and financial services to small businesses. Each award in varying amounts of no less than $500,000, but no more than $1,000,000 will be transferred to the sub-recipient in three tranches on a reimbursement basis. Each subrecipient will implement a TA program for no less than two, but no more than five years. TA will be delivered to beneficiaries through a myriad of platforms either in-person or virtual delivery in a variety of settings including classroom, cohort, mentorship, and one-to-one contact. The Authority will reserve $586,072 to support TA programs as needed. Funds to the sub-recipients will be disbursed beginning in Fiscal year 2025.

- As a way to increase its financial impact across the Commonwealth of Virginia, the Authority will collaborate with other Commonwealth of Virginia Agencies and other entities so that additional organizations can receive financial assistance. Two such Memorandum of Agreements (MOA) were executed during Fiscal year 2024 for this purpose.

- On March 28, 2024, the Authority entered into a MOA with the Virginia Tobacco Region Revitalization Commission (TRRC) to administer the Tobacco Region Agribusiness, Energy, and Economic Development Loan Fund, a lending program partnership between TRRC and VSBFA. The MOA shall be effective from April 1, 2024 through June 30, 2029, and is renewable provided both TRRC and VSBFA express in writing their interest in continuing the program for another five-year term. The *Virginia Tobacco Region Revitalization Commission* Program (TRRC) provides direct loans to eligible borrowers to fund quality Agribusiness, Energy, and Economic Development projects that increase economic activity in the Tobacco Region in Virginia. Eligible borrowers must be either a political subdivision of the Commonwealth engaged in economic development activity or an eligible business, as defined by the Virginia Small Business Financing Authority Act, Section 2.2-2279, *Code of Virginia*, engaged in agribusiness or an energy-focused activity. Eligible borrowers must be located in and conduct business in the Tobacco Region, as defined in an appendix in the MOU, and be in good standing with the Virginia State Corporation Commission. Funding for the Program shall be provided by TRRC from its lending programs budget and shall not exceed $10,000,000.

- On June 6, 2024, the Authority entered into a MOA with the Hopewell Downtown Partnership (HDP) to administer the Hopewell Downtown Partnership Economic Development Loan Fund, a lending program partnership between HDP and VSBFA. This MOA is effective from June 1, 2024 through June 1, 2029, and is renewable provided both HDP and VSBFA express in writing their interest in continuing the program for another five-year term. VSBFA shall provide loans to eligible borrowers to fund quality Economic Development projects that increase economic activity in the City of Hopewell. Funding for the program shall be provided by HDP from its grants and shall not exceed $500,000.

- In both programs, although VSBFA will originate, screen and underwrite loan requests and provide a recommendation on each loan packet, TRRC (or HDP) will make the final decision on approving each loan, the interest rate, length and other terms. Funds will reside with TRRC (or HDP) until a loan packet has been submitted by VSBFA to TRRC (or HDP) and approved by TRRC (or HDP), at which time funds will be released to VSBFA. VSBFA will service outstanding loans in the Program portfolio, which shall include monthly billing and collection, management of past-due loans, modifications to loan terms and payment amounts, and the collection of defaulted loans, if necessary. To cover its operation expenses, VSBFA will earn 50 basis points in interest on each loan made as well as a $200 per loan fee. VSBFA will remit principal and interest payments received from borrowers to TRRC (or HDP) on a semi-annual basis, less VSBFA's 50 basis point fee.

- The desired term of loans to private borrowers in both programs is three to five years and shall not exceed seven years without the approval of the Incentives and Loans Committee (I&L Committee) of TRRC (or HDP). The desired term for loans to economic development entities is five to seven years and shall not exceed ten years without approval of the I&L Committee. The interest rate shall be determined by TRRC (or HDP) on a project-by-project basis, will be reflective of risk, mission objectives and market conditions. Each loan program's desired overall rate of return for the program over time is to exceed the annual rate of inflation on all funds deployed, inclusive of loan losses.

- Total outstanding direct loans for the Authority increased 52% from $15,366,062 as of June 30, 2023 to $23,312,241 as of June 30, 2024. Outstanding direct loan commitments were $3,104,744 as of June 30, 2024 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 2024. The Authority had 2 direct loan charge-offs in Fiscal year 2024 which totaled $3,630, and no charge-offs in FY2023. There have been no losses under its *SSBCI Cash Collateral* Program or its *Loan Guaranty* Program in either Fiscal 2023 or 2024.

- Total operating revenues for the Authority increased by 37.89%, from $1,689,444 in Fiscal 2023 to $2,329,491 in Fiscal 2024, primarily as the result of increased bond fee revenues. Bond fee revenues for Fiscal 2024 were higher than in Fiscal 2023 due to several new bonds which closed in Fiscal 2023 and paid their first annual admin fee during Fiscal 2024. 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 increased 43.75% from $1,653,691 in Fiscal 2023 to $2,377,181 in Fiscal 2024. This increase is partially due to the additional costs incurred when several new staff positions, created to help manage the increased business level the Authority experienced during Fiscal year 2024, were filled. The increase in operating expenses was also due to the process of implementing a new loan operations computer system. This process began in Fiscal 2024, and it is due to be completed in early Fiscal 2025. This new computer system will drastically improve the efficiency of the Authority's loan operations area.

- Non-operating revenues for the Authority are nearly 100% derived from interest income on cash balances. During Fiscal 2024, non-operating interest income increased to $5,062,667 from $1,776,749 in Fiscal 2023. This $3.3 million increase was primarily due to the Authority investing its cash balances from the Authority's State Small Business Credit Initiative (SSBCI 2.0 and SSBCI 2.0 Technical Assistance) balances in Local Government Investment Pool (LGIP) accounts. This increase was also the result of the Authority beginning a practice in Fiscal 2024 of maintaining only a minimal amount of its cash in a commercial bank account and investing the remainder of the funds in LGIP accounts. LGIP accounts pay a higher rate of interest than commercial banks do.

- 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, 2024 were $4,113,368 compared with $645,438 as of June 30, 2023.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

For the Fiscal Years Ending June 30, 2023 and June 30, 2024

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:

	6/30/2024	6/30/2023	% change
Cash (Restricted and Unrestricted)	$8,564,530	$17,608,231	-51%
Investments (Restricted and Unrestricted)	$85,912,427	$81,558,318	5%
Loans receivable (net of Doubtful Accounts)	$22,844,372	$15,054,783	52%
Restricted Assets (SSCBI & State CCP Reserve Accts, SSBCI CAP & VCAP Reserves)	$4,113,368	$645,438	537%
Other assets	$56,057	$25,917	116%
Total Assets	**$121,490,754**	**$114,892,687**	**6%**
Obligations under Securities Lending Program	$919,353	$1,103,482	-17%
Restricted Liabilities (Support Obligations under CAP & Other)	$56,125	$308,841	-82%
Other Liabilities	$346,014	$234,436	48%
Total Liabilities	**$1,321,492**	**$1,646,759**	-20%
Net Assets	**$120,169,262**	**$113,245,928**	**6%**

Net Assets	**FY24**	**FY23**	**% change**
Restricted	$103,225,567	$100,424,201	3%
Unrestricted	$16,943,695	$12,821,727	32%
Total Net Assets	**$120,169,262**	**$113,245,928**	**6%**

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, 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, 2024, the Net Assets under these federally funded programs were $4,078,483, $73,392,451 and $22,470,404 respectively, totaling $99,941,338.

   Another $602,082 is restricted in the *Tobacco Region Revitalization Commission* Program, a program funded by another state agency with the same name.

   VSBFA restricted net assets are "restricted" funds administered by the Authority and are VSBFA funds restricted as the result of deficiency guaranties, guaranty commitments, or unfunded state loan or microloan commitments. VSBFA restricted net assets as of June 30, 2024 totaled $2,682,147, which included $1,940,116 attributable to outstanding guarantees in the *Loan Guaranty* Program. Total outstanding loan guarantees in the *Loan Guaranty* Program as of June 30, 2024 were equal to $7,760,465. Per the Acts of Assembly, our total outstanding loan guarantees cannot exceed $15 million at any time, or four times our net available guaranty amount, whichever is greater. Therefore, only 25% of our outstanding loan guarantees is considered to be restricted. An additional $742,031 is restricted because there are unfunded commitments of $682,031 in the *State (VSBFA) Economic Development Loan* Program, and $60,000 of unfunded commitments in the *Microloan* Program.

2. Unrestricted - As of June 30, 2024, unrestricted net assets totaled $16,943,695 which included $11,132,565 in VSBFA Operating, $17,243 in the *SSBCI Cash Collateral* Program, $4,475,133 in the State *Economic Development Loan Fund* Program and $1,318,754 in the *Microloan* Program.

	FY24	FY23	% Change
Operating Revenues:			
Charges for sales and service	1,682,795.00	1,224,806.00	37.39%
Interest on loans receivable	644,431.00	451,470.00	42.74%
Other (including recoveries)	2,265.00	13,168.00	-82.80%
Total Operating Revenues	**$ 2,329,491**	**$ 1,689,444**	**37.89%**
Operating Expenses:			
Personnel services	$ 1,561,489	$ 1,240,074	25.92%
Contractual Services, including rent and supplies	$ 564,463	$ 209,024	170.05%
Bad Debt	$ 226,289	$ 73,640	0.00%
Other (bond fee sharing, add'l CCP reserve & misc)	$ 24,940	$ 130,953	-80.95%
Total Operating Expenses	**$ 2,377,181**	**$ 1,653,691**	**43.75%**
Net Operating Income	**$ (47,690)**	**$ 35,753**	**-233.39%**
Non-Operating Revenues:			
Interest income	$ 5,062,667	$ 1,776,749	184.94%
Other non-operating revenue	$ 250	$ 2,697	-90.73%
Total Non-Operating Revenues	**$ 5,062,917**	**$ 1,779,446**	**184.52%**
Net Income Before Transfers	**$ 5,015,227**	**$ 1,815,199**	**176.29%**
Transfers			
Net operating transfers	$ 1,655,391	$ 53,177,640	-96.89%
Total Net Transfers	**$ 1,655,391**	**$ 53,177,640**	**-96.89%**
Change in Net Assets	**$ 6,670,618**	**$ 54,992,839**	**-87.87%**

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY
Notes to Financial Statements
June 30, 2023 and 2024

(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, the *Virginia Tobacco Region Revitalization Commission* Program direct loan program (funded through the State Agency of the same name), 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 is 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 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

Since being hired in March 2023, the current Executive Director of the Authority works as an independent contractor via 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, 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 501(c)(3) bond fees were retained by the Authority and used to support VSBFA small business loan programs and to pay administrative costs, including staff salaries. Although this sharing of 501(c)(3) fee revenues was discontinued during Fiscal year 2023, one payment of $20,000 was approved to be paid in Fiscal Year 2024. 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 operations system and additional staff positions.

(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 $7,760,465 as of June 30, 2024 compared with outstanding loan guaranties of $4,457,062 as of June 30, 2023. There were no claims and no claim payments under the *Loan Guaranty* Program during Fiscal 2023 or Fiscal 2024.

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 $1,321,553 as of June 30, 2024 and $60,000 in outstanding unfunded loan commitments. Allowance for Doubtful Accounts for the *Microloan* Program at the Fiscal 2024 year-end was $40,873. The program had 2 charge-offs in Fiscal year 2024 which totaled $3,630, and no charge-offs in FY2023. $1,008 in recovery payments on prior years' charge-offs were received during Fiscal year 2024.

(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 $5,111,187 of net outstanding loans and $682,031 of outstanding loan commitments at the 2024 Fiscal year-end. Allowance for Doubtful Accounts for the program at June 30, 2024 was $104,310. There were no charge-offs in this program during the 2024 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 $4,074,486 as of June 30, 2024. Of this amount, $4,057,243 was obligated to support CCP enrolled loans and is classified as Restricted, and the remaining $17,243 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 2023 or Fiscal 2024. As of June 30, 2024, 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 $46,125 as of June 30, 2024. There were no claims under the *SSBCI Capital Access* Program in Fiscal 2024 or 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 Capital Program

The *State Small Business Credit Initiative 2.0 Capital* Program (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 Capital* Program (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 early Fiscal year 2025.

(g) State Small Business Credit Initiative 2.0 Technical Assistance Grant Program

The *State Small Business Credit Initiative 2.0 Technical Assistance Grant* Program (SSBCI 2.0 TA) is used to provide legal, accounting, and advisory services to "very small" businesses (VSB) and to businesses owned by Socially and Economically Disadvantaged Individuals (SEDI). The Authority will disburse funds to U.S. Treasury-approved organizations to implement TA programs on the Authority's behalf. The Authority will reimburse these organizations for their expenses after services have been provided. Such payments are expected to begin in Fiscal year 2025. At the conclusion of the 5-year program, $3,548,684 is expected to be disbursed to the organizations to support VSB and SEDI seeking to obtain or retain capital. The remaining $586,072 will be used to contract with other technical assistance providers.

(h) 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, 2024, there were net loans receivable of $1,381,272, and there were $565,835 in outstanding loan commitments. Allowance for Doubtful Accounts as of the 2024 Fiscal year-end was $28,189, and there were no charge-offs during the 2024 or 2023 Fiscal years.

(i) 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 is 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 because of the continuing compliance requirements stipulated by the defederalization agreement.

Total assets of the fund were $23,380,074 as of June 30, 2024 as compared with $22,755,476 as of June 30, 2023. Net loans receivable totaled $14,430,360 as of June 30, 2024 and there were $1,796,878 in outstanding loan commitments at that date, compared with net receivables of $10,597,428 and $2,984,000 in outstanding loan commitments as of June 30, 2023. Allowance for Doubtful Accounts was $294,497 at June 30, 2024, and there were no charge-offs during Fiscal 2024.

(j) Virginia Tobacco Region Revitalization Commission Program

The *Virginia Tobacco Region Revitalization Commission* Program *(TRRC)* provides direct loans to eligible borrowers to fund quality Agribusiness, Energy, and Economic Development projects that increase economic activity in the Tobacco Region in Virginia. Eligible borrowers must be either a political subdivision of the Commonwealth engaged in economic development activity or an eligible business, as defined by the Virginia Small Business Financing Authority Act, Section 2.2-2279, *Code of Virginia*, engaged in agribusiness or an energy-focused activity. Eligible borrowers must be located in and conduct business in the Tobacco Region, as defined in an appendix in the MOA, and be in good standing with the Virginia State Corporation Commission. Funding for the Program shall be provided by TRRC from its lending programs budget and shall not exceed $10,000,000.

Through June 30, 2024, one loan of $600,000 has been made through this program. No Allowance for Doubtful Accounts will ever be recorded for this program as funds unrecovered using the normal VSBFA collection process will be absorbed by TRRC.

(k) Hopewell Downtown Partnership Program

The *Hopewell Downtown Partnership p*rogram (HDP) provides direct loans to eligible borrowers to fund quality Economic Development projects that increase economic activity in the City of Hopewell. Eligible borrowers must be either a political subdivision of the Commonwealth engaged in economic development activity or an eligible business, as defined by the Virginia Small Business Financing Authority Act, Section 2.2-2279, *Code of Virginia*, engaged in agribusiness or an energy-focused activity. Eligible borrowers must be located in and conduct business in the City of Hopewell, as defined in an appendix in the MOA, and be in good standing with the Virginia State Corporation Commission. Funding for the Program shall be provided by HDP from its grants and shall not exceed $500,000.

As of June 30, 2024, no loans have been made through this program. No Allowance for Doubtful Accounts will ever be recorded for this program as funds unrecovered using the normal VSBFA collection process will be absorbed by HDP.

(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 of June 30, 2024, the Authority had Cash Equivalents of $919,353 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 2024, the Authority reimbursed SBSD for personnel and general administrative expenses including information technology services, legal services and operations management.

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.