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# VSBFA

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**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, 2024 and 2025**

**(Unaudited)**

CONTENTS

Management’s Preparation and Presentation of Unaudited Financial Statements..... 3

    Management’s Responsibility for the Financial Statements ..... 3

    Non-GASB Compliant Financial Statements ..... 3

    GASB Statements No. 28, 70 and No. 101 and Significant Reporting Methodology ..... 3

Management’s Discussion and Analysis..... 5

    Financial Highlights 2024 and 2025 ..... 5

Basic Financial Statements and Financial Analysis of the Authority..... 8

    Statement of Net Assets ..... 8

        Description of Total Assets, Total Liabilities and Total Net Assets ..... 8

    Statement of Revenues, Expenses and Changes in Net Assets ..... 10

        Description of Revenues, Expenses and Changes in Net Assets ..... 10

Notes to Financial Statements ..... 11

    Organization and Summary of Significant Accounting Policies ..... 11

    Description of Programs and Fund Groups ..... 13

    Loans Receivable..... 17

    Cash and Investments..... 17

    Securities Lending Transactions ..... 18

    Relationship with the Department of Small Business and Supplier Diversity ..... 18

    Subsequent Events ..... 18

## MANAGEMENT'S PREPARATION AND PRESENTATION OF UNAUDITED FINANCIAL STATEMENTS

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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. The financial statements and the management discussion and notes included in this report have not been prepared or audited by a certified public accountant.

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, 2024 and June 30, 2025 and the changes in net position from the 2024 Fiscal year-end to the 2025 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 STATEMENTS NO. 28, 70 AND NO. 101 AND SIGNIFICANT REPORTING METHODOLOGY

- The Authority participates in the General Account Investment Portfolio, managed by the Virginia Department of the Treasury. Pursuant to that participation, the Authority receives investment income allocations on a quarterly basis. Securities lending is performed for the General Account portfolio under an approved agreement and Net lending income is added to the General Account income. Paragraph 6 of Governmental Accounting Standards Board (GASB) Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, requires that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets and resulting liabilities from these transactions be reported in the balance sheet. Paragraph 8 of the statement requires the costs of securities lending transactions (borrower rebates and agent fees) be reported as expenditures or expenses in the operating statement and does not allow the costs to be netted with the interest revenue. Paragraphs 9 and 10 of the statement require the allocation of these amounts in cases when a government pools money from several reporting funds for investment purposes. The amount of the entries required by this GASB Statement are provided to the Authority by
- The Authority's *SSBCI Cash Collateral Program* (CCP) 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 Statement No. 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 *SSBCI Cash Collateral Program*. In accordance with GASB 70, since there were no claims through the *SSBCI Cash Collateral Program*, as of June 30, 2025, 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 GASB Statement No. 70. As defined by this Statement, 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.
- GASB Statement No. 101, Compensated Absences, is effective for Fiscal year 2025. This statement changes the reporting requirements for leave liability. A liability must now be recognized for 1.) leave that has not been used and 2.) leave that has been used but not yet paid in cash or settled through noncash means (i.e. conversion to a post-employment benefit). A liability should be recognized for leave that has not been used if A) the leave is attributable to services already rendered, B) the leave accumulates, and C) the leave is more likely than not (means a likelihood of more than 50 percent) to be used for time off or otherwise paid in cash or settled through noncash means. The adoption of this Statement in Fiscal year 2025 increased the amount that the Authority recorded as accrued leave liability as of June 30, 2025 by \$80,990. Estimations for Virginia Sickness and Disability Program (VSDP) sick and personal leave as well as compensatory leave that will be used before lost is now included in the liability amounts. This is a significant change from GASB Statement No. 16 requirements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2024 and June 30, 2025. 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 2024 AND 2025

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the Fiscal years ended June 30, 2024 and June 30, 2025.

- Under the State Small Business Credit Initiative 2.0 (SSBCI 2.0), the Authority is 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 has administered the SSBCI 2.0 Initiative and will continue to do so until the program's conclusion on September 30, 2030.
- 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. The Authority deployed \$58,097.837.49 or 81.57% of the first tranche by May 19, 2025. The second tranche was requested on April 14, 2025, but it was not received by June 30, 2025.
- 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 has utilized 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 the second transfer of \$18,213,451 on September 3, 2024. The third and final transfer of Tranche 1 will be made to VIPC as SSBCI 2.0 funding is deployed by VIPC for equity investments.
- The Authority is expected to retain up to \$57 million of the \$230 million in SSBCI 2.0 funding. These funds are used to pay a portion of administrative expenses related to the program. During Fiscal year 2025, \$249,926.37 in FY25 administrative expenses were reimbursed. Tranche 1 has been used to fund a \$20 million SSBCI 2.0 direct loan program called the *Capital Connect Program* and a \$30 million *Cash Collateral Program*, similar to the original SSBCI 1.0 Initiative, but with separate and distinct eligibility and usage requirements as stipulated by the SSBCI 2.0 program. The Authority committed \$5 million of SSBCI 2.0 funding to a *Loan to Community Development Financial Institutions (CDFIs) Program*. Loans are committed for no more than \$2,000,000 at 0% interest to no more than 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. After 80% of the disbursement had been deployed, the second disbursement of \$309,078 was disbursed on February 21, 2025. After 80% of the prior disbursement has been deployed, the third and final disbursement will be transferred to CIC. CIC underwrites and awards loans

to Virginia small businesses in accordance with the SSBCI 2.0 Capital Program Policy Guidelines. As of June 30, 2025, CIC has deployed \$405,049.93 in SSBCI 2.0 funding. The Authority will seek to partner with two additional CDFIs to deploy another \$4,000,000.

- The U.S. Treasury awarded \$4,134,756 to the Authority on August 18, 2024 through a five-year *SSBCI 2.0 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 have been used to provide technical assistance to VSB and SEDI that are applying for, preparing to apply for, or have previously applied for an SSBCI 2.0 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. All four subrecipients have begun to implement a TA program and will do so for the next two to five years in accordance with the individual subrecipient awards. TA has been 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 received approval to subaward \$500,000 of the \$586,072 reserved to support SBDCs impacted by Hurricane Helene. A total of \$478,859.06 in SSBCI 2.0 funding has been disbursed to TA Providers during Fiscal year 2025.
- 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. The two (2) most recent 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 of the above mentioned 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 in these two programs. VSBFA also earns a \$200 fee per loan made in the HDP program. VSBFA will remit principal and interest payments received from borrowers enrolled in these programs 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 59% from \$23,312,241 as of June 30, 2024 to \$37,072,770 as of June 30, 2025 as the result of increased loan demand. Outstanding direct loan commitments were \$983,197 as of June 30, 2025 compared to \$3,104,744 as of June 30, 2024.
- The overall credit quality of the Authority's direct loan and credit support portfolios continued to be very strong in Fiscal 2025. The Authority had no charge-offs in Fiscal year 2025, and only two (2) direct loan charge-offs in Fiscal year 2024 which totaled \$3,630. There have been no losses under its *SSBCI Cash Collateral Program* or its *Loan Guaranty Program* in either Fiscal 2024 or 2025.
- 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, 2025 were \$4,701,477 compared with \$4,113,368 as of June 30, 2024.

## BASIC FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS OF THE AUTHORITY

The following tables summarize select financial information regarding the Authority's operations as of the dates and for the periods indicated:

### STATEMENT OF NET ASSETS

|                                                                                   | 6/30/2025            | 6/30/2024            | % Change        |
|-----------------------------------------------------------------------------------|----------------------|----------------------|-----------------|
| Cash (Restricted and Unrestricted)                                                | \$3,957,254          | \$8,564,530          | -54%            |
| Investments (Restricted and Unrestricted)                                         | \$60,835,966         | \$85,912,427         | -29%            |
| Loans Receivable (net of Doubtful Accounts)                                       | \$36,337,427         | \$22,844,372         | 59%             |
| Restricted Assets<br>(SSBCI & State CCP Reserve Accts, SSBCI CAP & VCAP Reserves) | \$4,701,477          | \$4,113,368          | 14%             |
| Other Assets                                                                      | \$125,391            | \$56,057             | 124%            |
| <b>Total Assets</b>                                                               | <b>\$105,957,515</b> | <b>\$121,490,754</b> | <b>-13%</b>     |
| Obligations under Securities Lending Program                                      | \$375,007            | \$919,353            | -59%            |
| Restricted Liabilities (Support Obligations under CAP & Other)                    | \$56,453             | \$56,125             | 1%              |
| Other Liabilities                                                                 | \$481,748            | \$346,014            | 39%             |
| <b>Total Liabilities</b>                                                          | <b>\$913,208</b>     | <b>\$1,321,492</b>   | <b>-31%</b>     |
| <b>Net Assets</b>                                                                 | <b>\$105,044,307</b> | <b>\$120,169,262</b> | <b>-13%</b>     |
|                                                                                   |                      |                      |                 |
| <b>Net Assets</b>                                                                 | <b>FY25</b>          | <b>FY24</b>          | <b>% change</b> |
| Restricted                                                                        | \$88,341,338         | \$103,225,567        | -14%            |
| Unrestricted                                                                      | \$16,702,969         | \$16,943,695         | -1%             |
| <b>Total Net Assets</b>                                                           | <b>\$105,044,307</b> | <b>\$120,169,262</b> | <b>-13%</b>     |

### DESCRIPTION OF TOTAL ASSETS, TOTAL LIABILITIES AND TOTAL NET ASSETS

#### TOTAL ASSETS

Total assets of the Authority decreased by 13%, from \$121,490,754 in Fiscal 2024 to \$105,957,515 in Fiscal 2025. Cash and investments combined decreased \$30 million, from \$94,476,957 in Fiscal 2024 to \$64,793,220 in Fiscal 2025. This \$30 million decrease was primarily due to the Authority transferring \$18.2 million from its State Small Business Credit Initiative (SSBCI 2.0) Local Government Investment Pool (LGIP) account balance to VIPC for its equity investments in eligible Virginia small businesses, as well as funding the Authority's \$13.8 million increase in its total loan portfolio due to strong loan demand.

#### TOTAL LIABILITIES

Total liabilities of the Authority decreased by 31%, from \$1,321,492 in Fiscal 2024 to \$913,208 in Fiscal 2025. This decrease is due to the \$544,346 decrease in Obligations under the Securities Lending Program in Fiscal 2025. As stated on page 3 of this report, GASB Statement No. 28 requires that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets and resulting liabilities from these transactions be reported in the balance sheet. The entries required by GASB Statement No. 28, the amounts of which were provided to the Authority by the Virginia Department of Accounts, were \$919,353 in Fiscal year 2024 and \$375,007 in Fiscal 2025.

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## TOTAL NET ASSETS

The Authority's Net Assets include both Restricted Assets and Unrestricted Assets as described below:

### RESTRICTED NET ASSETS

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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 *federal Economic Development Loan Fund* (U.S. Department of Commerce - Economic Development Administration). As of June 30, 2025, the Net Assets under these federally funded programs were \$4,123,097, \$57,275,832 and \$23,335,876 respectively, totaling \$84,734,805.

Another \$1,281,351 is restricted in the *Tobacco Region Revitalization Commission* and *Hopewell Downtown Partnership Programs* which are funded by organizations of those names.

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 *VSBFA Economic Development Loan Fund* or *Microloan Program* commitments. VSBFA restricted net assets as of June 30, 2025 totaled \$2,325,181, which was 100% attributable to outstanding guarantees in the *Loan Guaranty Program*. There were no unfunded commitments in the *VSBFA Economic Development Loan Program* or *Microloan Program* as of June 30, 2025. Total outstanding loan guarantees in the *Loan Guaranty Program* as of June 30, 2025 were equal to \$9,300,723. 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.

### UNRESTRICTED NET ASSETS

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As of June 30, 2025, unrestricted net assets totaled \$16,702,970 which included \$6,353,316 in VSBFA Operating, \$62,094 in the *SSBCI Cash Collateral Program*, \$8,393,728 in the *VSBFA Economic Development Loan Fund Program* and \$1,893,832 in the *Microloan Program*.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

|                                                    | FY25                   | FY24                | % Change         |
|----------------------------------------------------|------------------------|---------------------|------------------|
| <b>Operating Revenues:</b>                         |                        |                     |                  |
| Charges for Sales and Services                     | 1,493,434              | 1,682,795           | -11.25%          |
| Interest on Loans Receivable                       | 1,177,356              | 644,431             | 82.70%           |
| Other (including Recoveries)                       | 39,078                 | 2,265               | 1625.30%         |
| <b>Total Operating Revenues</b>                    | <b>\$ 2,709,868</b>    | <b>\$ 2,329,491</b> | <b>16.33%</b>    |
| <b>Operating Expenses:</b>                         |                        |                     |                  |
| Personnel Services                                 | \$ 1,986,272           | \$ 1,561,489        | 27.20%           |
| Contractual Services (including Rent and Supplies) | \$ 1,313,354           | \$ 564,463          | 132.67%          |
| Bad Debt                                           | \$ 298,280             | \$ 226,289          | 31.81%           |
| Other (Bond Fee Sharing, Add'l CCP Reserve & Misc) | \$ 9,801               | \$ 24,940           | -60.70%          |
| <b>Total Operating Expenses</b>                    | <b>\$ 3,607,707</b>    | <b>\$ 2,377,181</b> | <b>51.76%</b>    |
| <b>Net Operating Income</b>                        | <b>\$ (897,839)</b>    | <b>\$ (47,690)</b>  | <b>-1782.66%</b> |
| <b>Non-Operating Revenues:</b>                     |                        |                     |                  |
| Interest Income                                    | \$ 3,567,993           | \$ 5,062,667        | -29.52%          |
| Other Non-Operating Revenue                        | \$ 7,090               | \$ 250              | 2736.00%         |
| <b>Total Non-Operating Revenues</b>                | <b>\$ 3,575,083</b>    | <b>\$ 5,062,917</b> | <b>-29.39%</b>   |
| <b>Net Income Before Transfers</b>                 | <b>\$ 2,677,244</b>    | <b>\$ 5,015,227</b> | <b>-46.62%</b>   |
| <b>Transfers</b>                                   |                        |                     |                  |
| Net Operating Transfers                            | \$ (17,802,199)        | \$ 1,655,391        | -1175.41%        |
| <b>Total Net Transfers</b>                         | <b>\$ (17,802,199)</b> | <b>\$ 1,655,391</b> | <b>-1175.41%</b> |
| <b>Change in Net Assets</b>                        | <b>\$ (15,124,955)</b> | <b>\$ 6,670,618</b> | <b>-326.74%</b>  |

DESCRIPTION OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES

Total operating revenues for the Authority increased by 16.33%, from \$2,329,491 in Fiscal 2024 to \$2,709,868 in Fiscal 2025, primarily as the result of increased loan interest income due to the growth in loan demand during the Fiscal year. This increase in income was concentrated in the VSBFA Economic Development Loan Fund Program and the federal Economic Development Loan Fund Program due to increased demand in each of these programs during Fiscal year 2025. 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.

OPERATING EXPENSES

Total operating expenses for the Authority increased 51.76% from \$2,377,181 in Fiscal 2024 to \$3,607,707 in Fiscal 2025. This increase is primarily due to costs incurred during the implementation of the Prizm Loan Accounting and Servicing

System, a loan operations computer system, which began in Fiscal 2024 and is due to be completed in early Fiscal 2026. This new computer system will drastically improve the efficiency of the Authority's loan operations area. Increased operating expenses were also incurred when several new staff positions, created to help manage the increased business level the Authority has been experiencing since Fiscal year 2024, were filled in mid-Fiscal year 2024 and early in Fiscal year 2025. Bad debt expense rose proportionally in Fiscal 2025 from the Fiscal 2024 amount due to the increased volume of loans.

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## NON-OPERATING REVENUES

Non-operating revenues for the Authority are nearly 100% derived from interest income paid on cash balances. During Fiscal 2025, non-operating interest income decreased from \$5,062,667 in Fiscal 2024 to \$3,567,993 in Fiscal 2025. This \$1.5 million decrease in income was primarily due to the \$30 million decrease in the Authority's cash and investment account balances during Fiscal 2025. This \$30 million decrease was due to the \$18.2 million transfer made to VIPC for its use in the SSBCI 2.0 program in September 2024, as well as funding the Authority's \$13.8 million increase in its total loan portfolio due to strong loan demand.

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## NET OPERATING TRANSFERS

The \$18.2 million transfer to VIPC was the primary transfer out made during the year. This large transfer out was partially offset by transfers in from the Virginia Tobacco Region Revitalization Commission and the Hopewell Downtown Partnership to fund loans which were approved in the programs the Authority maintains with those agencies.

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## NOTES TO FINANCIAL STATEMENTS

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### ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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#### 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 1.0 and 2.0 Cash Collateral Programs, the SSBCI 1.0 Capital Access Program, the SSBCI 2.0 Capital Connect Program and the SSBCI 2.0 Loan to CDFIs Program, all of which are funded through the U.S. Treasury. The financial statements also include the activities of 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 *federal Economic Development Loan Fund* direct loan program (funded through the U.S. Department of Commerce-Economic Development Administration), the VSBFA-funded *Economic Development Loan Fund* direct loan program, the VSBFA-funded *Microloan* and *Microloan Fee-Based* direct loan programs, the VSBFA-funded *Loan Guaranty* Program, the *Virginia Tobacco Region Revitalization Commission* direct loan program (funded through the State Agency of the same name), the *Hopewell Downtown Partnership* direct loan program (funded through the organization of the same name) and VSBFA's various tax-exempt and taxable bond programs, which are described in more detail below.

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## BASIS OF ACCOUNTING

The Authority utilizes a modified accrual basis of accounting in preparing its financial statements where revenues are recognized when revenues 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 or other entities.

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## 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, bond 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.

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## 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.

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## 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 1.0* and *2.0 Cash Collateral* and the *SSBCI 1.0 Capital Access* Programs 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.

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## EMPLOYEES, FUNDING FOR STAFF SALARIES AND EMPLOYEE COMPENSATION

The current Executive Director of the Authority was hired in May 2025, and he is an employee of the Virginia Small Business Financing Authority, and accordingly, the salary for his position is an expense of the Authority and is included in Personnel Services. The previous Executive Director of the Authority, who retired in February 2025, worked as an independent contractor via the Virginia Small Business Financing Authority, and during Fiscal year 2025, the salary for his position was categorized as Contractual Services expense rather than Personnel Services expense.

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 generated revenues, and in select cases, a portion of personnel expenses are paid by offsets against certain program funds as allowed by the funding source.

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

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## 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.

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## 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 meets the guidelines outlined in GASB Statement No. 101 as explained earlier in this document.

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## DESCRIPTION OF PROGRAMS AND FUND GROUPS

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### CONDUIT BOND PROGRAMS

As previously noted, the Authority is a conduit issuer of tax-exempt and taxable Bonds, providing creditworthy businesses and 501(c)(3) 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, *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. No such payments were made in Fiscal year 2025. 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 to fund upcoming operational initiatives, including a new loan operations system and additional staff positions.

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#### 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 five (5) years) and term loans (for a maximum duration of seven (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 by 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 \$9,300,723 as of June 30, 2025 compared with outstanding loan guaranties of \$7,760,465 as of June 30, 2024. There were no claims and no claim payments under the *Loan Guaranty* Program during Fiscal 2024 or Fiscal 2025.

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.

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#### 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 \$1,886,473 as of June 30, 2025, and there were no outstanding unfunded loan commitments. This net increase in 2025 is due to demand growth in this program. Allowance for Doubtful Accounts for the *Microloan* Program at Fiscal 2025 year-end was \$58,345. The program had no charge-offs during Fiscal year 2025, but it did have two (2) charge-offs in Fiscal year 2024 which totaled \$3,630.00. \$39,078 in recovery payments on prior years' charge-offs were received during Fiscal year 2025. Under the *Microloan* Program, a Fee-based option was implemented during the most recent Fiscal year for eligible Virginia small businesses and is funded internally by the Authority. The program, which currently provides direct loans up to a maximum of \$50,000 with a total cap of \$500,000, had net outstanding loans of \$0 as of June 30, 2025 and \$0 in outstanding unfunded loan commitments. The Allowance for Doubtful Accounts for the *Microloan Fee-based* Program at the Fiscal 2025 year-end was \$0.

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#### VSBA ECONOMIC DEVELOPMENT LOAN FUND PROGRAM

The *VSBA Economic Development Loan Fund* direct loan program is funded internally by the Authority and provides financing for significant economic development projects that are not eligible for financing through the Authority's *federal Economic Development Loan Fund* Program 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 *VSBFA Economic Development Loan Fund Program* had \$8,354,854 of net outstanding loans and no outstanding loan commitments at the 2025 Fiscal year-end. Allowance for Doubtful Accounts for the program at June 30, 2025 was \$170,507. There were no charge-offs in this program during the 2025 or 2024 Fiscal years.

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#### 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 \$4,489,224 as of June 30, 2025. Of this amount, \$4,427,130 was obligated to support CCP enrolled loans and is classified as Restricted, and the remaining \$62,094 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 2024 or Fiscal 2025. As of June 30, 2025, 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 \$88,767 as of June 30, 2025. There were no claims under the *SSBCI Capital Access Program* in Fiscal 2025 or 2024. *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.

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#### 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 *SSBCI 2.0 Program*, the Authority is 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 administers the SSBCI 2.0 Initiative until the program's conclusion on September 30, 2031.

The Authority retains up to \$57 million in SSBCI 2.0 funding used to pay a portion of administrative expenses related to the program and fund an *SSBCI 2.0 Loan to Community Development Financial Institutions (CDFI) Program*, an *SSBCI 2.0 Capital Connect Program*, as well as an *SSBCI 2.0 Cash Collateral Program*. The Authority's deployment of SSBCI 2.0 funding under these new programs commenced in August 2024. Interest earned on cash balances during Fiscal year 2025 was \$1,995,509.

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#### 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 disburses funds to U.S. Treasury-approved organizations to implement TA programs on the Authority’s behalf. The Authority reimburses these organizations for their expenses after services have been provided. Such payments began in August 2024. At the conclusion of the five-year program, \$4,048,684 is expected to be disbursed to the organizations to support VSB and SEDI seeking to obtain or retain capital. The remaining \$86,072 will be used to contract with other technical assistance providers and for administrative expenses. Interest earned on cash balances during Fiscal year 2025 was \$56,427.

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#### 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, 2025, there were net loans receivable of \$2,405,843, and there were no outstanding loan commitments. Allowance for Doubtful Accounts as of the 2025 Fiscal year-end was \$49,099, and there were no charge-offs during the 2025 or 2024 Fiscal years.

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#### 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 \$23,698,781 as of June 30, 2025 compared with \$23,380,074 as of June 30, 2024. Net loans receivable totaled \$20,600,886 as of June 30, 2025 and there were \$983,197 in outstanding loan commitments at that date, compared with net receivables of \$14,430,360 and \$1,796,878 in outstanding loan commitments as of June 30, 2024. Allowance for Doubtful Accounts was \$420,426 at June 30, 2025, and there were no charge-offs during Fiscal 2025.

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## 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, 2025, two (2) loans totaling \$800,000 have been made through this program. The balance of these loans as of June 30, 2025 is \$778,011. 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.

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## HOPEWELL DOWNTOWN PARTNERSHIP PROGRAM

The *Hopewell Downtown Partnership* Program (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.

Through June 30, 2025, one (1) loan totaling \$500,000 has been made through this program, and that is the balance of this loan as of June 30, 2025. The structure of this loan is for only interest to be paid for the first six (6) months of the loan, so the first principal payment is not expected until November 1, 2025. 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.

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## 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.

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## 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 and savings institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts from 50%

to 130% of excess deposits. 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.

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#### SECURITIES LENDING TRANSACTIONS

As of June 30, 2025, the Authority had Cash Equivalents of \$375,007 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.

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#### 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 2025, 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 2.2-2284, *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.

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#### SUBSEQUENT EVENTS

On October 2, 2025, the Authority received the second tranche of SSBCI 2.0 funding (\$78,528,141) from the U.S. Treasury. \$59,097,878 of this amount will be used by VIPC, with the remaining \$19,430,263 being used by the Authority, to fund transactions which meet the guidelines of the SSBCI 2.0 Allocation Agreement.