

VIRIGNIA SMALL BUSINESS FINANCE AUTHORITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Small Business Finance Authority for the year ended June 30, 2005, found:

- that subsequent to fiscal 2005, the Authority transferred the largest and most significant loan program, the Economic Development Loan Program, to a newly created community development financial institution as a requirement of the 2005 Virginia Acts of the Assembly;
- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations.

- TABLE OF CONTENTS -

	<u>Page</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1
SIGNIFICANT EVENT AND OTHER PROGRAMS	1-2
INDEPENDENT AUDITOR'S REPORT	3-4
AUTHORITY OFFICIALS	5

AGENCY HIGHLIGHTS

The Virginia Small Business Finance Authority provides Virginia's businesses access to capital through public financing in an effort to maximize employment opportunities throughout the Commonwealth. The Authority provides this assistance through the various assistance programs.

The Department of Business Assistance houses the Authority and pays certain administrative expenses. The Director of the Department of Business Assistance appoints the Authority's Executive Director, and an 11-member board, appointed by the Governor, oversees the Authority's operations. The operations of the Authority consist of reviewing program applications, conducting credit analysis, monitoring the progress of projects that have received funding, and servicing loan receivables. In addition, the Authority monitors the state ceiling for the Virginia Private Activity Bond Allocation. This allocation consists of the Industrial Development Bond Allocation, the Housing Bond Allocation, and the Governor's State Allocation.

SIGNIFICANT EVENT AND OTHER PROGRAMS

During fiscal year 2006, the Authority transferred the a portion of the Virginia Economic Development Revolving Fund's assets and liabilities, \$3.4 and \$4.4 million, respectively, to a newly created community development financial institution as a requirement of the 2005 Virginia Acts of the Assembly. This fund is the state-funded component of the Economic Development Loan Program. As shown in the chart below, the Authority has lost the largest and most significant amount of special revenue to fund operations. The primary effects of this move are a decrease in the number of personnel and increases in expenses as the Authority allocates these amounts to other existing programs.

<p><i>Child Day Care Program</i> provides assistance to child care businesses through installment loans, which can either enhance the quality of care, or meet or maintain state or local child care requirements, including health, safety, and fire codes.</p>	<p><i>Loan Guaranty Program</i> provides participating local banks deficiency loan guarantees for loans made to Virginia businesses that do not have access to capital. Borrowers contact participating Virginia banks to apply for this assistance.</p>
<p><i>Economic Development Loan Program</i> provides gap financing for working capital and fixed asset financing to new and expanding Virginia businesses that are creating or saving jobs in Virginia, or are providing for the quality of life in the community.</p>	<p><i>VSBFA Direct Program</i> provides direct financing for working capital and fixed asset financing to new and expanding Virginia businesses that are creating or saving jobs in Virginia, or are providing for the quality of life in the community.</p>
<p><i>Small Business Environmental Compliance Assistance Program</i> is a revolving loan program for small businesses that need equipment to comply with the Clean Air Act or for voluntary pollution prevention.</p>	<p><i>Industrial Development Bond Program</i> where the Authority is a conduit issuer of tax-exempt and taxable industrial development bonds for qualifying Virginia businesses and 501(c) 3's.</p>
<p><i>Virginia Capital Access Program (VCAP)</i> encourages banks to lend to small businesses by providing a matching reserve to the bank that can be used to offset default losses.</p>	<p><i>Southside Region Tobacco Capital Access Program (TCAP)</i> is a program very similar to the VCAP program that provides assistance to small businesses in the Southside Tobacco Region.</p>

In addition to the programs above, the Authority also provides administrative support to the Department of Minority Business Enterprise for its loan program. The Department of Minority Business Enterprise determines who will receive support and the Authority handles the issuing of the amounts and all loan servicing efforts.

The Authority derives operating income from interest earned on loans receivable, application and bond fees, and any recovery of loans previously charged off. Nonoperating income consists of securities lending and interest earned from investments. The Authority maintains the majority of its cash with the Treasurer of Virginia. Operating expenses include loan write-offs, matching enrollment fees for the capital access programs, personal services, and contractual services. Nonoperating expenses include grants and disbursements to localities and securities lending. The Authority's expenses exceeded revenues due to \$531,824 in Grants and Distributions to Localities, which is activity from the Virginia Capital Access Program and the Southside Region Tobacco Capital Access Program. The following is a summary of financial activity for the major programs within the Authority.

Assets and Liabilities for Fiscal Year 2005

Assets:	
Economic Development Loan Program	\$26,711,659
Child Day Care Program	3,472,895
Operating and Loan Guaranty Program	2,679,774
Virginia Capital Access Program	2,132,371
Small Business Environmental Compliance Assistance Program	987,475
Southside Region Tobacco Capital Access Program	763,946
Department of Minority Business Enterprise Program	<u>295,025</u>
Total	<u>\$37,043,145</u>
Liabilities:	
Economic Development Loan Program	\$ 3,429,891
Virginia Capital Access Program	2,006,072
Small Business Environmental Compliance Assistance Program	51,693
Southside Region Tobacco Capital Access Program	500,089
Department of Minority Business Enterprise Program	<u>75,447</u>
Total	<u>\$ 6,063,192</u>

Revenues, Expenses, and Operating Income for Fiscal Year 2005

	Economic Develop- ment Loan Program	Operating and Loan Guaranty Program	Child Day Care Program	Small Business Environmental Compliance Assistance Program	Virginia Capital Access Program	Southside Region Tobacco Capital Access Program	Department of Minority Business Enterprise Program	Total
Revenues:	<u>\$628,547</u>	<u>\$120,066</u>	<u>\$88,196</u>	<u>\$ 23,490</u>	<u>\$ 17,803</u>	<u>\$ -</u>	<u>\$ 530</u>	<u>\$ 878,632</u>
Expenses:								
Personal services	311,890	-	27,994	62,060	-	-	-	401,944
Contractual services	7,455	35,416	1,783	2,639	-	-	-	47,293
Grants and distribu- tions to localities	-	-	-	-	231,824	300,000	-	531,824
Other expenses	<u>241,811</u>	<u>-</u>	<u>3,000</u>	<u>58,074</u>	<u>-</u>	<u>36,143</u>	<u>44,592</u>	<u>383,620</u>
Total expenses	<u>561,156</u>	<u>35,416</u>	<u>32,777</u>	<u>122,773</u>	<u>231,824</u>	<u>336,143</u>	<u>44,592</u>	<u>1,364,681</u>
Operating income/(loss)	<u>\$ 67,391</u>	<u>\$ 84,650</u>	<u>\$ 55,419</u>	<u>\$(99,283)</u>	<u>\$(214,021)</u>	<u>\$(336,143)</u>	<u>\$(44,062)</u>	<u>\$ (486,049)</u>



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

June 30, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Small Business Finance Authority** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System or other agency financial system, review the adequacy of the Authority's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Federal grant revenues and expenditures	Payroll expenditures
Cash receipting and collections of accounts receivable	Appropriations

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of the Authority's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Department of Business Assistance's financial system. The Authority records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

EXIT CONFERENCE

We discussed this report with management on July 7, 2006 and their response is included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA SMALL BUSINESS FINANCE AUTHORITY

Scott Parsons, Executive Director

BOARD MEMBERS

Andrew Brownstein, Chairman

Jane-Scott Cantus	Michael Joyce
James Cheng	Leon Moore
Hattie Hamlin	Pallabi Saboo
Jeffrey Jones	John Stephens

EX-OFFICIO

David Ashe	Scott E. Parsons
Stacy L. Burrs	Braxton Powell

A. Carole Pratt