VSBFA

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, 2025 and 2026

(Unaudited)

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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 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, 2025 and June 30, 2026, and the changes in net position from the 2025 Fiscal Year-End to the 2026 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 Authority's *SSBCI 1.0* and *2.0 Cash Collateral* Programs (CCP) utilize 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 1.0 or CCP 2.0 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 1.0 or CCP 2.0 deposit be utilized to offset the bank's deficiency loss (or a portion thereof).

- The Virginia Department of Accounts and the Virginia Auditor of Public Accounts have determined that the CCP reserves provided under the SSBCI 1.0 and 2.0 *Cash Collateral* Programs constitute a non-exchange financial guaranty 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 guaranty or support has not directly received equal or approximately equal value in exchange for that guaranty or support.

- In accordance with GASB Statement No. 70, funds held in CCP 1.0 or CCP 2.0 reserve accounts are recognized as restricted assets. The Authority does not record a liability and related expense against these CCP 1.0 or CCP 2.0 reserve accounts 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 1.0 or 2.0 Cash Collateral* Programs. In accordance with GASB No. 70, since there were no claims through the *SSBCI Cash Collateral 1.0 or 2.0* Programs, as of June 30, 2026, the Authority recorded no restricted liability against the reserve accounts of the *SSBCI 1.0* or *2.0 Cash Collateral* Programs, which are reflected as restricted assets on the Authority's balance sheet.

- GASB Statement No. 101, *Compensated Absences*, was effective beginning in Fiscal Year 2025, and replaced GASB Statement No. 16. 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 for 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. Estimations for Virginia Sickness and Disability Program (VSDP) sick and personal leave as well as compensatory leave that will be used before lost, are now included in the liability amounts. This is a significant change from GASB Statement No. 16 requirements.

- Loans made through the loan programs VSBFA has with the Tobacco Region Revitalization Commission (TRRC) and with the Hopewell Downtown Partnership (HDP) are not considered to be assets of VSBFA, as VSBFA is only underwriting and servicing those loans. Therefore, those loan balances and their related interest income are not reflected in the amounts referenced in comments or shown in the financial statements which are included in this report. The loan amounts for these two programs were included in the report submitted for Fiscal Year 2025 in error. As a result, since the Fiscal Year 2025 amounts included in the Fiscal Year 2026 report have been updated to exclude the impact of these two programs, those amounts do not equal the Fiscal Year 2025 amounts that were referenced in the Fiscal Year 2025 report.

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, 2025 and June 30, 2026. 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 2025 AND 2026

The following information represents a comparative analysis of key financial aspects of the Authority's operations between the Fiscal Years ended June 30, 2025 and June 30, 2026.

- 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 is administering 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 emphasizes a desired deployment focus on businesses considered "very small" (with nine or fewer employees) (VSBs) and on

businesses owned by Socially and Economically Disadvantaged Individuals (SEDIs, as defined by U.S. Treasury guidelines). During Fiscal Year 2026, the Authority received the second tranche of SSBCI 2.0 funding of $71,220,519, as well as additional funding of $7,307,622 from the U.S. Treasury, with the latter resulting from the Authority achieving certain deployment goals related to SEDI-owned businesses and "very small" businesses.

- Under a Memorandum of Agreement (MOA) with the Virginia Innovation Partnership Corporation (VIPC) executed on December 23, 2022, the Authority provides SSBCI 2.0 funding for VIPC's operation of two venture capital programs that make direct and indirect equity investments in certain categories of Virginia small businesses. Under the terms of this agreement, the Authority made additional transfers to VIPC of $5,480,717 as SEDI Incentive and $52,673,272 of Tranche 2 on December 17, 2025.

- The Authority is expected to retain up to $57 million of the $230 million in SSBCI 2.0 funding for VSBFA program funding and Loan-to-CDFI program funding, as well as for VSBFA administrative expenses specifically related to the administration of the SSBCI 2.0 Program. During Fiscal Year 2026, $312,215.90 in administrative expenses were reimbursed.

- SSBCI 2.0 funding has been utilized to create an SSBCI 2.0 direct loan program called the *Capital Connect* Program and an indirect (support) loan program called the 2.0 *Cash Collateral* Program. The latter is like the Authority's original *Cash Collateral* Program, which was introduced during the SSBCI 1.0 Initiative, but it has separate and distinct eligibility and usage requirements as stipulated by the SSBCI 2.0 program.

- The Authority has previously committed up to $5 million of SSBCI 2.0 funding to the *Loan to Community Development Financial Institutions (CDFIs)* Program, which provides loans to CDFIs which support lending programs to eligible Virginia small businesses.

- The U.S. Treasury awarded the Authority $4.1 million under the five-year *SSBCI 2.0 Technical Assistance* Program (SSBCI 2.0 TA), to be disbursed in three tranches. The first tranche of $1,364,469 was received on August 28, 2023. During Fiscal Year 2025, the Authority expended $478,859.06 (35.1% of Tranche 1), and during Fiscal Year 2026, an additional $883,251.73 was expended (64.7%), bringing total expenditures to 99.8% of Tranche 1. On May 12, 2026, Virginia submitted its request for Tranche 2, with an additional $1,364,469.48 in funds expected.

- *SSBCI 2.0 TA* funds support assistance to VSB and SEDI businesses preparing for or engaging in *SSBCI 2.0* or other small business programs. Following a competitive selection process, four subrecipients received awards between $500,000 and $1,000,000 which will be distributed in three reimbursement-based tranches. One subrecipient received an additional $500,000 in Fiscal Year 2025 for Hurricane Helene Disaster Relief. All subrecipients continue to implement multi-year *SSBCI 2.0 TA* programs delivering services through classes, cohorts, mentorship, and one-on-one support.

- 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 (MOAs) 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 of 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 the appendix of 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.

- 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.

- VSBFA originates, screens, and underwrites loan requests for the *TRRC* and *HDP* Programs. VSBFA provides a recommendation on each loan request with TRRC (or HDP) making the final approval decision on each request. Funds available for the loan programs remain at TRRC (or HDP) until the loan request is approved. VSBFA receives funds only after TRRC (or HDP) approves a loan request. VSBFA is responsible for servicing the outstanding loans in both programs.

- Total outstanding direct loans for the Authority, not including loans made in the *TRRC* and *HDP* Programs, increased 15.8% from $35,794,759 as of June 30, 2025 to $41,456,004 as of June 30, 2026 as the result of increased loan demand. Outstanding direct loan commitments were $206,000 as of June 30, 2026 as compared with $983,197 as of June 30, 2025.

- The overall credit quality of the Authority's direct loan and credit support portfolios continued to be very strong in Fiscal Year 2026. The Authority had one (1) direct loan charge-off in Fiscal Year 2026 of $5,807.56 and no charge-offs in Fiscal Year 2025. There have been no losses under its *SSBCI 1.0 or 2.0 Cash Collateral* Programs or its *Loan Guaranty* Program in either Fiscal Year 2025 or 2026.

- Reserve accounts for the *SSBCI 1.0 and 2.0 Cash Collateral* Programs and the *SSBCI 1.0 Capital Access* Program are classified as restricted assets on the Authority's balance sheet. Total restricted assets as of June 30, 2026 were $7,044,905 compared with $4,701,477 as of June 30, 2025.

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

	6/30/2026	6/30/2025	% Change
Cash (Restricted and Unrestricted)	$6,067,976	$3,957,254	53%
Investments (Restricted and Unrestricted)	$77,429,064	$60,835,966	27%
Loans Receivable (net of Doubtful Accounts)	$40,602,635	$35,059,416	16%
Restricted Assets (SSBCI 1.0 & 2.0 CCP Reserve Accts & SSBCI 1.0 CAP Reserves)	$7,044,905	$4,701,477	50%
Other Assets	$65,494	$122,050	-46%
Total Assets	**$131,210,074**	**$104,676,163**	**25%**
Obligations under Securities Lending Program	$833,909	$375,007	122%
Restricted Liabilities (Support Obligations under CAP & Other)	$0	$56,453	-100%
Other Liabilities	$543,435	$481,747	13%
Total Liabilities	**$1,377,344**	**$913,207**	51%
Net Assets	**$129,832,730**	**$103,762,956**	**25%**

Net Assets	FY26	FY25	% change
Restricted	$111,762,099	$87,059,986	28%
Unrestricted	$18,070,631	$16,702,970	8%
Total Net Assets	**$129,832,730**	**$103,762,956**	**25%**

DESCRIPTION OF TOTAL ASSETS, TOTAL LIABILITIES AND TOTAL NET ASSETS

TOTAL ASSETS

Total assets of the Authority increased by 25%, from $104,676,163 in Fiscal Year 2025 to $131,210,074 in Fiscal Year 2026. Cash and investments combined increased $18.7 million, from $64,793,220 in Fiscal Year 2025 to $83,497,040 in Fiscal Year 2026. This increase was primarily due to the Authority receiving its second *State Small Business Credit Initiative (SSBCI 2.0)* Program tranche during Fiscal Year 2026, but not yet converting all those funds into loans. Net loans increased $5.5 million due to strong direct loan demand, and restricted assets increased $2.3 million due to strong indirect (support) loan demand.

TOTAL LIABILITIES

Total liabilities of the Authority increased by 51%, from $913,207 in Fiscal Year 2025 to $1,377,344 in Fiscal Year 2026. This increase is due to the $458,902 increase in obligations under the Securities Lending Program in Fiscal Year 2026. 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 that resulting liabilities from these transactions be reported as liabilities 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 $375,007 in Fiscal Year 2025 and $833,909 in Fiscal Year 2026.

TOTAL NET ASSETS

The Authority's net assets include both restricted assets and unrestricted assets as described below:

RESTRICTED NET ASSETS

Net restricted assets represent funds that have been received by the Authority for specific financing programs from various funding sources, including funds that 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, 2026, the restricted net assets under these federally funded programs were $4,130,098, $79,494,713, and $24,470,791, respectively, totaling $108,095,602.

VSBFA restricted net assets are restricted funds administered by the Authority and are VSBFA funds restricted because of deficiency guaranties, guaranty commitments, or unfunded *VSBFA Economic Development Loan Fund* or *Microloan* Program commitments. VSBFA restricted net assets as of June 30, 2026 totaled $3,666,497, which was 100% attributable to outstanding guaranties in the *Loan Guaranty* Program. There were no unfunded commitments in the *VSBFA Economic Development Loan* Program or *Microloan* Program as of June 30, 2026. Total outstanding loan guaranties in the *Loan Guaranty* Program as of June 30, 2026 were $14,665,988. Per the Acts of Assembly, the Authority's total outstanding loan guaranties cannot exceed $15 million at any time, or four times VSBFA's net available guaranty amount, whichever is greater. Therefore, only 25% of VSBFA's outstanding loan guaranties are considered to be restricted.

UNRESTRICTED NET ASSETS

As of June 30, 2026, unrestricted net assets totaled $18,070,631, which included $7,571,618 in VSBFA Operating, $93,036 in the *SSBCI 1.0 Cash Collateral* Program, $8,044,140 in the *VSBFA Economic Development Loan Fund* Program and $2,361,837 in the *Microloan* Program.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	FY26	FY25	% Change
Operating Revenues:			
Charges for Sales and Services	4,332,816	1,493,434	190.12%
Interest on Loans Receivable	1,563,746	1,144,889	36.58%
Other (including Recoveries)	-	39,078	-100.00%
Total Operating Revenues	**$ 5,896,562**	**$ 2,677,401**	**120.23%**
Operating Expenses:			
Personnel Services	$ 2,070,623	$ 1,986,272	4.25%
Contractual Services (including Rent and Supplies)	$ 588,848	$ 1,313,354	-55.16%
Bad Debt	$ 231,138	$ 298,280	-22.51%
Other (Bond Fee Sharing, Add'l CCP Reserve & Misc)	$ 12,556	$ 9,802	28.10%
Total Operating Expenses	**$ 2,903,165**	**$ 3,607,708**	**-19.53%**
Net Operating Income	**$ 2,993,397**	**$ (930,307)**	**421.76%**
Non-Operating Revenues:			
Interest Income	$ 3,683,055	$ 3,567,995	3.22%
Other Non-Operating Revenue	$ -	$ 7,091	-100.00%
Total Non-Operating Revenues	**$ 3,683,055**	**$ 3,575,086**	**3.02%**
Net Income Before Transfers	**$ 6,676,452**	**$ 2,644,779**	**152.44%**
Transfers			
Net Operating Transfers	$ 19,336,869	$ (18,448,676)	-204.81%
Total Net Transfers	**$ 19,336,869**	**$ (18,448,676)**	**-204.81%**
Change in Net Assets	**$ 26,013,321**	**$ (15,803,897)**	**-264.60%**

DESCRIPTION OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES

Total operating revenues for the Authority increased by 120.23%, from $2,677,401 in Fiscal Year 2025 to $5,896,562 in Fiscal Year 2026, primarily as the result of a $2.8 million increase in annual administrative fees paid on bonds in Fiscal Year 2026. $921,431 of this increase came from one bond customer paying their past-due bond fees. Loan interest income grew $419,127 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 2026. Operating revenues for the Authority are derived from interest income on direct loans, program application and program fees, and 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 decreased 19.53% from $3,607,708 in Fiscal Year 2025 to $2,903,165 in Fiscal Year 2026. This decrease is due to lower costs incurred in Fiscal Year 2026 for the implementation of the Prizm Loan Accounting and Servicing System, a loan operations computer system, which began in Fiscal Year 2024 and is due to be completed in early Fiscal Year 2027. This new computer system will significantly improve the efficiency of the Authority's loan operations area.

NON-OPERATING REVENUES

Non-operating revenues for the Authority are derived almost entirely from interest income earned on cash balances. During Fiscal Year 2026, non-operating interest income increased from $3,575,086 in Fiscal Year 2025 to $3,683,055 in Fiscal Year 2026. This $107,969 increase in income was due to interest income paid on the SSBCI 2.0 funds that were received during Fiscal Year 2026, but have not yet been deployed as loans. This undeployed amount was deposited in the Authority's SSBCI 2.0 investment account balance during Fiscal Year 2026.

NET OPERATING TRANSFERS

The $19.3 million net transfer in Fiscal Year 2026 is primarily due to the SSBCI 2.0 transfer in from U.S. Treasury of $78,528,141 and the transfer out of $58,153,989 of those funds to VIPC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 guaranties, 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.

BASIS OF ACCOUNTING

The Authority utilizes a modified accrual basis of accounting in preparing its financial statements where revenues are recognized 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 on 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.

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 its own investment portfolio. As a conduit issuer, the Authority and the Commonwealth have no liability or obligation for the repayment of the bonds. Accordingly, the Authority's outstanding bonds are not reported as liabilities in the accompanying financial statements.

LOANS RECEIVABLE

Loans receivable is stated using unpaid principal balance, less an allowance for loan losses. Interest is computed and accrued on a loan-by-loan basis, using the actual/365 day-count convention.

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 charge-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 it has been determined that repayment is highly unlikely. For non-bankruptcy cases, the Authority's collection accounts are sent to the State of Virginia Attorney General's Office (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 its notes receivable is appropriate, given that its 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 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.

EMPLOYEES, FUNDING FOR STAFF SALARIES AND EMPLOYEE COMPENSATION

As of the end of Fiscal Year 2026, the Executive Director position of the Authority was vacant. The employment of the most recent Executive Director ended in February 2026. He was an employee of the Virginia Small Business Financing Authority, and accordingly, the salary for his position was an expense of the Authority and was included in Personnel Services. The previous Executive Director, who retired in February 2025, worked as an independent contractor for VSBFA, and during Fiscal Year 2025, compensation for his position was categorized as Contractual Services expense rather than

as Personnel Services expense. The future Executive Director will be classified as an employee of VSBFA, and the salary and related benefits for the position will be expenses of the Authority and recorded as Personnel Services.

The Authority receives no annual appropriation from the Virginia General Assembly for salaries, program funding, or administrative expenses. Consequently, salaries for the 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 is paid by offsets against certain program funds as allowed by the funding source.

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

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 Annual Comprehensive Financial Report (ACFR). The Commonwealth, not the Authority, has overall responsibility for contributions to these plans.

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.

DESCRIPTION OF PROGRAMS AND FUND GROUPS

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) nonprofits 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 based on 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) nonprofit 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.

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 guaranties 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 $14,665,988 as of June 30, 2026, compared with outstanding loan guaranties of $9,300,723 as of June 30, 2025. As of June 30, 2026, there was also an unfunded loan guaranty of $425,000 that is expected to be funded in Fiscal Year 2027. There were no claims and no claim payments under the *Loan Guaranty* Program during Fiscal Year 2025 or Fiscal Year 2026.

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 guaranties are considered a restricted component of the Authority's operating funds.

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 $2,352,104 as of June 30, 2026, and there were no outstanding unfunded loan commitments. This net increase in 2026 is due to demand growth in this program. Allowance for doubtful accounts for the *Microloan* Program at Fiscal Year 2026 year-end was $72,745. The program had no charge-offs during Fiscal Year 2025, but it did have one (1) charge-off in Fiscal Year 2026, which totaled $5,807.56. No recovery payments on prior years' charge-offs were received during Fiscal Year 2026. Under the *Microloan* Program, a fee-based option was implemented during Fiscal Year 2025 for eligible Virginia small businesses and is funded internally by the Authority. The program, designed to provide 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, 2026 and no outstanding unfunded loan commitments. The allowance for doubtful accounts for the *Microloan Fee-Based* Program at the 2026 Fiscal Year-End was $0.

VSBFA ECONOMIC DEVELOPMENT LOAN FUND PROGRAM

The *VSBFA 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 $8,028,630 of net outstanding loans and no outstanding loan commitments at the 2026 Fiscal Year-End. Allowance for doubtful accounts for the program at June 30, 2026 was $163,850. There were no charge-offs in this program during the Fiscal Years 2025 or 2026.

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 a result of the continuing usage and eligibility constraints which govern the program, and as a result of the terms and conditions of the program agreements executed by the Authority and the banks participating in the *SSBCI 1.0 Cash Collateral* Program (CCP) and the *SSBCI 1.0 Capital Access* Program (SSBCI 1.0 CAP).

SSBCI 1.0 Cash Collateral Program reserve accounts aggregated $4,443,295 as of June 30, 2026. Of this amount, $4,350,259 was obligated to support CCP 1.0 enrolled loans and is classified as restricted, and the remaining $93,036 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 1.0 CCP* program in either Fiscal Year 2025 or Fiscal Year 2026. As of June 30, 2026, the Authority recorded no amounts of restricted liability against the restricted asset - CCP 1.0 reserve accounts for potential losses, as there were no troubled loans supported by the *SSBCI 1.0 Cash Collateral* Program.

The final remaining loans that were enrolled in the *SSBCI 1.0 Capital Access* Program matured in Fiscal Year 2026, so the balance in the corresponding reserve accounts totaled $0.00 as of June 30, 2026. There were no claims under the *SSBCI 1.0 Capital Access* Program in Fiscal Year 2026 or 2025. *SSBCI 1.0 CAP* claim payments are made from existing *SSBCI 1.0 CAP* reserve accounts, using funds that were previously expended by the Authority. In the event of claims made by participating banks, the Authority has no additional liability beyond the previously expended contributions made to these reserve accounts. This program has now ended, and no other loans will be enrolled in the *SSBCI 1.0 Capital Access* Program in the future.

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 COVID-19 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 to fund VSBFA's SSBCI 2.0 programs, to pay a portion of administrative expenses related to the program, and to fund an *SSBCI 2.0 Loan to Community Development Financial Institutions (CDFI)* Program. The Authority's deployment of SSBCI 2.0 funding under these new programs commenced in August 2024. Interest income earned on cash balances during Fiscal Year 2026 was $2,516,860.

The *SSBCI 2.0 Capital Connect* Program had $6,837,391 of net outstanding loans and an outstanding loan commitment of $206,000 at the 2026 Fiscal Year-End. Allowance for doubtful accounts for the program at June 30, 2026 was $139,539. There were no charge-offs in this program during the 2026 or 2025 Fiscal Years. The *SSBCI 2.0 Loan to CDFIs* Program had $1,434,345 of net outstanding loans and no outstanding loan commitments as of June 30, 2026. Allowance for doubtful accounts for the program at June 30, 2026, was $29,272. There were no charge-offs in this program during the

2026 or 2025 Fiscal Years. The *SSBCI 2.0 Cash Collateral* Program had $2,673,920 in total outstanding loans and a $60,000 outstanding loan commitment at the 2026 Fiscal Year-End. As of June 30, 2026, the Authority recorded no amounts of restricted liability against the restricted asset - CCP 2.0 reserve accounts for potential losses, as there were no troubled loans supported by the *SSBCI 2.0 Cash Collateral* Program.

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 (VSBs) and to businesses owned by Socially and Economically Disadvantaged Individuals (SEDIs). The Authority disburses funds to U.S. Treasury-approved organizations to implement *SSBCI 2.0 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 VSBs and SEDIs 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 income earned on cash balances during Fiscal Year 2026 was $19,501.

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 (MOA) with the Virginia Department of Education. The program offers qualified child care providers no-interest direct loans up to $250,000 to fund quality enhancement projects or projects to meet or maintain state or local child care 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, 2026, there were net loans receivable of $2,923,557, and there were no outstanding loan commitments. Allowance for doubtful accounts as of the 2026 Fiscal Year-End was $59,664, and there were no charge-offs during the 2026 or 2025 Fiscal Years.

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 the EDA, the Authority is no longer obligated to provide semi-annual or annual reporting to the 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 that 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 $25,290,722 as of June 30, 2026 compared with $23,698,781 as of June 30, 2025. Net loans receivable totaled $19,026,609 as of June 30, 2026 and there were no outstanding loan commitments at that date, compared with net receivables of $20,600,886 and $983,197 in outstanding loan commitments as of June 30, 2025. Allowance for doubtful accounts was $388,298 at June 30, 2026, and there were no charge-offs during Fiscal Year 2026.

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.

The balance of loans made in this program as of June 30, 2026 is $2,794,566. Per the MOA, the outstanding loan balances are reflected on the balance sheet of TRRC, and not on the balance sheet of VSBFA. No allowance for doubtful accounts will ever be recorded by VSBFA for this program as funds unrecovered using the normal VSBFA collection process will be absorbed by TRRC.

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 to 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, 2026, one (1) loan totaling $500,000 has been made through this program, and the balance of this loan as of June 30, 2026 was $498,860. Per the MOA, the outstanding loan balances are reflected on the balance sheet of HDP and not on the balance sheet of VSBFA. No allowance for doubtful accounts will ever be recorded by VSBFA for this program, as funds unrecovered using the normal VSBFA collection process will be absorbed by HDP.

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.

CASH AND INVESTMENTS

Cash includes cash on hand, and amounts in checking accounts not held by the state Treasurer are insured by the Federal Deposit 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 more than 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.

SECURITIES LENDING TRANSACTIONS

As of June 30, 2026, the Authority had cash equivalents of $832,389 and cash not held by the Treasurer of Virginia of $1,520 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.

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 Year 2026, SBSD allocated a portion of expenses to VSBFA, including charges for 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.

SUBSEQUENT EVENTS

A new Executive Director was hired and began his employment with the Authority on August 10, 2026.

The loan operating system, LA Pro, was retired in October 2026, and the new loan operating system, Prizm, became the system of record for the Authority at that same time.