

**VIRGINIA SMALL BUSINESS FINANCING AUTHORITY**  
**RICHMOND, VIRGINIA**

**REPORT ON AUDIT**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of the Virginia Small Business Financing Authority for the year ended June 30, 2003, found:

- proper recording and reporting of material transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in the Authority's financial accounting records;
- no material weaknesses in internal control; and
- no instances of noncompliance that are required to be reported.

- TABLE OF CONTENTS -

INDEPENDENT AUDITOR'S REPORT

AGENCY HIGHLIGHTS

BOARD MEMBERS



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

March 30, 2004

The Honorable Mark R. Warner  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Lacey E. Putney  
Vice Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

## INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia Small Business Financing Authority** (Authority) for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Authority's financial accounting records, review the adequacy of the Authority's internal controls; and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Authority's operations. We also tested transactions and performed such other audit procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues  
Expenditures

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

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. Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

### Audit 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 in the Authority's financial accounting records. 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 from the Commonwealth Accounting and Reporting System and the Authority's financial accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 15, 2004.

AUDITOR OF PUBLIC ACCOUNTS

SHW/kva  
kva:

## Agency Highlights

The Virginia Small Business Financing Authority (Authority) provides public and private financing assistance to small businesses in the Commonwealth. The Authority's financing assistance includes loans, loan guaranties, and tax-exempt industrial development bond financing. Small businesses utilize the following programs administered by the Authority to access additional working capital to expand operations, meet regulatory requirements, and create jobs.

Loan Guaranty Program - The Authority guarantees up to 75 percent of a loan, up to a maximum amount of \$300,000, made to small businesses by banks.

Virginia Capital Access Program (VCAP) - The Authority establishes loan loss reserve accounts at participating banks to cover possible losses on loans made to Virginia small businesses. The reserve is funded by premiums paid by the borrower, which is usually between three and seven percent and matched by the Authority.

Industrial Development Bond Program - The Authority is a conduit issuer of tax-exempt revenue bonds providing creditworthy businesses with access to long-term financing at favorable interest rates for new and expanding manufacturing facilities and other tax-exempt projects, such as solid waste disposal facilities. These issues do not constitute a debt, liability, or general obligation of the Commonwealth. The participating businesses are solely responsible for making all debt service payments.

Revolving Loan Fund Program - The Authority operates the Virginia Economic Development Loan Fund (VEDLF) and the Virginia Defense Conversion Loan Fund (VDCLF) under this program. The VEDLF provides loans to small companies to bridge the gap between private debt financing and private equity for projects that will result in job creation or retention. The VDCLF provides loans to defense-dependent companies seeking to diversify and expand into commercial markets.

Environmental Compliance Assistance Fund - The Authority uses this fund to provide low-interest rate loans to small businesses for the purchase and installation of replacement equipment needed to comply with the Clean Air Act, to implement voluntary pollution prevention measures, or for the implementation of selected voluntary agricultural best management practices (BMPs) as listed in the Virginia Agricultural BMP Manual.

Child Day Care Financing Program - The Authority provides loans to regulated child day care centers and family home providers to meet or maintain childcare standards including health, safety, or fire codes or to make quality enhancements to their child care program.

Virginia Small Business Financing Authority Direct - This program provides economic development authorities, as well as new and existing small businesses access to working capital. Funds are provided through direct loans from the Virginia Small Business Financing Authority to facilitate the financing of projects that create economic benefit to Virginia's communities through increased revenues and the creation of new jobs.

The Director of the Department of Business Assistance appoints the Authority's Executive Director. A ten-member board appointed by the Governor oversees the Authority's operations. The Department of Business Assistance also provides office space and pays certain administrative expenses of the Authority.

The Authority's total operating and nonoperating revenues and expenses during fiscal year 2003 are summarized below.

Revenues:	
Interest income	\$1,404,577
Loan application and guaranty fees	47,032
Bond fees	72,628
Securities Lending	<u>41,727</u>
Total	<u>\$1,565,964</u>
Expenses:	
Loan write-offs	\$ 99
VCAP disbursements	266,087
Personal services	412,803
Contractual services	25,565
Securities lending	35,751
Miscellaneous	<u>43,224</u>
Total	<u>\$ 783,529</u>

The Authority's programs maintain any excess revenues. The Authority's \$34.9 million in assets primarily consist of \$24.5 million in cash and investments and \$8.5 million in loans receivable. The Authority invests excess cash of the Loan Guaranty and Child Day Care Financing Programs and its operating cash in the Local Government Investment Pool. The Authority deposits the excess cash of its remaining programs with the Treasurer of Virginia.

VIRGINIA SMALL BUSINESS FINANCING AUTHORITY  
Richmond, Virginia

Scott Parsons, Executive Director

Board Members

Andrew Brownstein, Chairman

N. Larry Roach, Vice Chairman

Jody Wagner, Treasurer

Richard L. Brown  
James S. Cheng  
Esther M. Corpus  
Hattie Hamlin

Ed Hamm  
Catherine Castle Lowe  
Charlie H. Mills III  
Leon Moore

Joseph P. Underwood