U.S. Small Business Administration

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Message From The Chief Financial Officer

November 17, 2008

I am pleased to submit the U.S. Small Business Administration's Agency Financial Report for FY 2008. This report provides the SBA's financial results as required by the Reports Consolidation Act.

The SBA's financial management program continued to excel during FY 2008. We successfully met our objective to support the Agency's programs to assist small business and provide disaster relief. The SBA's independent auditor issued an unqualified opinion on the accuracy of SBA's FY 2008 financial reports, the fourth year in a row for this achievement. Also, the FY 2008 audit reported no material weaknesses in SBA's financial reporting for the second year in a row. This continued success in SBA's financial management is the culmination of our progress over the last five years to improve the quality of the SBA's financial processes, data, and reports. Based on this progress, the SBA maintained a "green" for status and progress on the President's Management Agenda scorecard for Improved Financial Management during each quarter of FY 2008.

Our credit subsidy models are a key element in SBA's financial management because they estimate the cost of our credit programs. The SBA's credit programs generate most of our financial activity and results. Therefore, maintaining strong internal controls over our cost modeling as well as maintaining high quality, state of the art models is a top priority for us. We are proud to report that the independent auditor's review of our cost models did not find any significant discrepancies that affected their accuracy.

Another important element of SBA's financial management program is the review of our internal controls over financial reporting that we have conducted for three years now in compliance with OMB Circular A-123 Appendix A requirements. During FY 2008 we continued to engage SBA program offices in the review of the financial controls over their program operations. Our goal is to institute a strong risk management culture within the SBA.

We completed two major financial management initiatives in FY 2008. First, we completed a project that we began last year to account for disaster loan increases as if they were new loans in the current year consistent with the requirements of the Federal Credit Reform Act. SBA's accounting system did not have this capability in the past, but the financial impact had never been material until FY 2007 when there was $529 million of loan increases on loans originally made the previous year to the victims of hurricanes Katrina, Rita and Wilma. The cost impact of these loans is a continuing factor, and our financial systems staff successfully completed this initiative in FY 2008.

Second, we completed the procurement for a major project to develop and implement a new Loan Management and Accounting System. SBA's legacy loan accounting system is over 40 years old and needs replacement. Our work during FY 2008 on this procurement has provided us the resources and development plan needed for this multiyear project that has now begun. Our objective is to develop and implement a new Oracle based general ledger and receivables management system for SBA's credit programs, and I am confident that we have developed a sound approach to this important project.

Since late FY 2004, SBA has had an independent Audit and Financial Management Advisory Committee (AFMAC). During FY 2008, the Committee was well engaged in the financial reporting process and audit cycle, providing oversight of activities and making recommendations for our financial statement footnotes and the AFR. We are proud to have one of the few independent audit committees within the government and appreciate the opportunity to have such an esteemed group of professionals advising us. I thank them for their support and dedication to our continued improvement.

The SBA also continued to make important strides in budget and performance integration this year. Our ongoing efforts were reflected in our "green" status again in the President's Management Agenda throughout FY 2008. In addition, our Performance Management Office worked successfully with SBA's program offices during FY 2008 on a number of the Administrator's initiatives to improve the Agency's programs and operations.

In summary, FY 2008 was a rewarding year in financial management at the SBA. We obtained an unqualified opinion with no material weaknesses for the second year in a row. We will continue to dedicate ourselves to maintaining the high quality financial management processes we have put in place and to expand the quality and use of our financial data for decision making. Our continued participation in this "pilot" Agency Financial Report reflects our desire to improve the effectiveness of our external reports.

Thank you for your interest in SBA's FY 2008 Agency Financial Report.

Jennifer E. Main

Chief Financial Officer

Agency Financial Report ■ FY 2008

Audit and Financial Management Advisory Committee's Report

November 17, 2008

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration's (SBA's) financial operations. As part of that responsibility, the Committee meets with Agency management, the Agency's Inspector General, and its external auditors to review and discuss SBA's external financial audit coverage, the effectiveness of SBA's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact SBA's financial statements. SBA's external auditors are responsible for expressing an opinion on the conformity of SBA's audited financial statements with the U.S. generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to ensure that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report (AFR), including its financial statements, and provides comments to management who has primary responsibility for the AFR. The Committee met three times during the year with respect to these responsibilities on FY 2008 financial management and reporting. During two of these sessions, the Committee met with the Inspector General and external auditors without SBA management being present and discussed with the external auditors the matters that are required to be discussed by generally accepted auditing standards. Nothing came to our attention as a result of these discussions to indicate changes were needed to the financial statements and notes thereto that are included in the FY 2008 AFR.

Edward J. Mazur
Chairman
Audit and Financial Management Advisory Committee

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
AUDITING DIVISION

AUDIT REPORT
Issue Date: November 14, 2008
Number: 9-03

To: Sandy K. Baruah
Acting Administrator

Jennifer Main
Chief Financial Officer

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Audit of SBA's FY 2008 Financial Statements

Pursuant to the Chief Financial Officer's Act of 1990, attached are *the Independent Auditors' Report* and accompanying reports on internal control and compliance with laws and regulations issued by KPMG LLP for the fiscal year ending September 30, 2008. The audit was performed under a contract with the Office of Inspector General (OIG) and in accordance with *Generally Accepted Government Auditing Standards*; Office of Management and Budget's (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended; the Government Accountability Office (GAO)/President's Council on Integrity and Efficiency (PCIE) *Financial Audit Manual*; and GAO's *Federal Information System Controls Audit Manual*.

The KPMG report concluded that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of SBA as of and for the years ended September 30, 2008 and 2007. It also presented fairly, in all material respects, SBA's net costs, changes in net position, and combined statements of budgetary resources for the years then ended.

With respect to internal control over financial reporting, KPMG continued to report a significant deficiency related to Information Technology controls, but did not consider this deficiency to be a material weakness. KPMG noted that SBA made progress in several areas in its efforts to address prior year Information Technology internal control deficiencies. However, despite these improvements, deficiencies continue to exist for security access controls, software program changes, and end-user computing. Details regarding this significant deficiency are discussed more in Exhibit 1 of the *Independent Auditors' Report*.

KPMG's test for compliance with certain laws, regulations, contracts and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and Bulletin 07-04, as amended.

We provided a draft of KPMG's report to SBA's Chief Financial Officer (CFO), who concurred with its findings and recommendations and agreed to implement the recommendations. The CFO is delighted that SBA has again received an unqualified audit opinion with no reported material weaknesses and believes these results accurately reflect the quality of the Agency's financial statements and its improved accounting, budgeting and reporting processes.

We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the SBA's financial statements, KPMG's conclusions about the effectiveness of internal control, or its conclusions about SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with *Generally Accepted Government Auditing Standards*.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-7390 or Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205-7490.

Attachments

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Office of Inspector General
U.S. Small Business Administration:

We have audited the accompanying consolidated balance sheets of the U.S. Small Business Administration (SBA) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered SBA's internal controls over financial reporting and tested SBA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that SBA's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our opinion emphasized that the current economic conditions give rise to risks associated with the uncertainty of future events and actual losses to the agency will be dependent upon future economic and market conditions.

Our consideration of internal control over financial reporting resulted in the following condition being identified as a significant deficiency:

- Improvement Needed in Information Technology (IT) Controls

However, we did not consider this significant deficiency to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on SBA's consolidated financial statements; our consideration of SBA's internal control over financial reporting; our tests of SBA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SBA as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SBA as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 17 to SBA's financial statements, SBA continues to evaluate the risks posed by the current market downturn on its direct loan and loan guaranty portfolios, but the impact of such future risks cannot be reasonably estimated at this time. Actual losses, if any, will largely depend on future economic and market conditions and could differ materially from SBA's current estimates.

The information in the Management Discussion and Analysis, Required Supplementary Information and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily disclose all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects SBA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of SBA's consolidated financial statements that is more than inconsequential will not be prevented or detected by SBA's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by SBA's internal control.

In our fiscal year 2008 audit, we consider the deficiency described in Exhibit I to be a significant deficiency in internal control over financial reporting; however, we do not believe the significant deficiency described in Exhibit I is a material weakness. A summary of the status of the prior year significant deficiency, and management's response to our findings, is included as Exhibits III and IV, respectively.

We also noted certain additional matters that we reported to SBA's management in a separate letter dated November 14, 2008.

KPMG

COMPLIANCE AND OTHER MATTERS

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

The results of our tests of FFMIA disclosed no instances in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to SBA.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of SBA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered SBA's internal control over financial reporting by obtaining an understanding of the SBA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control over financial reporting.

KPMG

As part of obtaining reasonable assurance about whether SBA's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of SBA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of SBA financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803 (a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to SBA. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

SBA's response to the findings identified in our audit report is presented in Exhibit IV. We did not audit SBA's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of SBA's management, SBA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 14, 2008

Exhibit I

U.S. Small Business Administration

Significant Deficiency

Introduction

The internal control deficiency discussed in this report and the U.S. Small Business Administration's (SBA) progress toward correcting it are discussed in the context of SBA's organizational structure and its ability to obtain funding to take corrective action. Exhibit I herein describes the control deficiencies, which collectively resulted in the significant deficiency reported below, for the year ended September 30, 2008, and our recommendations thereon. The status of prior year noncompliance and internal control deficiencies are reported in Exhibits II and III, respectively, and SBA management's response is presented in Exhibit IV.

(1) Improvement Needed in Information Technology (IT) Controls

During fiscal year 2008, we noted that SBA made progress in several areas in its efforts to address prior year IT internal control deficiencies. Despite these improvements, we also noted that deficiencies continued to exist in the areas of security access controls, software program changes, and end-user computing.

Security Access Controls

Integral to an organization's security program management efforts, technical security access controls for systems and applications should provide reasonable assurance that IT resources such as data files, application programs, and IT-related facilities/equipment are protected against unauthorized modification, disclosure, loss, or impairment.

A summary of the security access control deficiencies we identified during the fiscal year 2008 SBA financial statement audit follow:

- We noted several high-risk security vulnerabilities with many devices hosted by SBA's Disaster Credit Management System (DCMS) service provider. Details are not provided in this report due to their sensitivity, but have been provided to SBA management. The Office of the Chief Information Officer (OCIO), through its security certification and accreditation (C&A) evaluation for DCMS, identified similar security vulnerabilities that needed to be addressed prior to the system receiving a full security accreditation. Further, we reviewed the Service Level Agreement (SLA) between SBA and the DCMS service provider, as well as the service provider's Statement on Auditing Standards (SAS) 70, *Report on the Processing of Transactions by Service Organizations*, and neither encompassed security vulnerability scanning for key DCMS devices.

- Neither OCIO nor DCMS officials were able to ensure that security vulnerability scans were consistently performed for two DCMS devices physically located at SBA Headquarters. This issue was identified by the SBA Office of Inspector General (OIG) during the OIG's annual Federal Information Security Management Act (FISMA) evaluation.

- We noted security vulnerabilities with many devices hosted in the SBA Headquarters office. Details are not provided in this report due to their sensitivity, but have been provided to SBA management. Although we noted improvement in this area since fiscal year 2007, consistent and periodic completion of vulnerability scans could have helped SBA reduce the number of vulnerabilities.

- The OCIO does not appropriately control remote access authorizations. Specifically, remote access is not always requested and approved by the employees' supervisor, and can be requested by the employees

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Exhibit I

U.S. Small Business Administration

Significant Deficiency

themselves. Further, e-mail approvals from supervisors are not retained for all remote access requests. As a result, controls over remote access authorization are more difficult to implement and validate.

- Validation of physical access to the data center at SBA's headquarters is not performed in accordance with SBA Standard Operating Procedure (SOP) 90-47.2, *Automated Information Systems Security Program*, which requires that a listing of authorized personnel for SBA computer facilities (e.g., server rooms) be maintained and access be revalidated at least quarterly.

- OCIO management is unable to provide reasonable assurance that electronic media is sufficiently sanitized prior to disposal, in accordance with SOP 90-47.2. The SOP requires that (1) media must be sanitized prior to disposal by using one of the three approved methods: overwriting, degaussing, or destruction, and (2) a log of who completed the sanitation action must be maintained.

- OCIO management was unable to provide reasonable assurance that access to the Loan Accounting System (LAS) and Local Area Network (LAN)/Wide Area Network (WAN) was periodically validated, in accordance with National Institute of Standards and Technology (NIST) guidance and SOP 90-47.2.

These issues are consistent with findings identified by the OIG in past years. In fact, the OIG has identified IT security as a serious SBA management challenge since at least fiscal year 2000.

Despite these issues, SBA has made significant improvements in recent years in the area of IT security, and there is commitment from the SBA to continue further improvements continue.

Recommendations – Security Access Controls:

We recommend that the SBA OCIO coordinate with SBA program offices to:

1. Ensure that SLAs with service providers require consistent and thorough security vulnerability scanning for devices supporting SBA.

2. Ensure that the scope of SAS 70 reports provided by service providers encompass security vulnerability scanning for devices supporting SBA.

3. Ensure the completion of more consistent vulnerability assessments to identify and resolve potential vulnerabilities, both within SBA offices and at service providers.

Exhibit I

U.S. Small Business Administration

Significant Deficiency

4. Implement procedures to control the process for requesting and granting remote access and implement procedures to retain the appropriate approval evidence for tracking and validation.

5. Implement controls to comply with SOP 90-47.2 regarding the validation of physical access to the data center.

6. Implement controls to comply with SOP 90-47.2 regarding the sanitizing of media prior to disposal.

7. Retain documentation supporting the validation of LAS and LAN/WAN system access in accordance with NIST guidance and SOP 90-47.2.

Software Program Changes

The primary focus of an organization's software change controls (which also encompasses patch management and configuration management efforts) is on controlling the software changes made to systems and applications in operation. Without such controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

A summary of the software program change control deficiencies we identified during the fiscal year 2008 SBA financial statement audit follow:

- The Office of Disaster Assistance (ODA) was unable to provide evidence that baseline configurations for the DCMS were updated in a timely manner. This issue was also identified in fiscal year 2007, and SBA was still in the process of implementing corrective actions during fiscal year 2008.

- The OCIO was unable to provide evidence that (1) testing was performed for four of eight selected LAS software changes, (2) approvals were made for two of eight selected LAS software changes, and (3) testing and approvals were documented for three selected Electronic Transaction System (E-TRAN) software changes.

- The OCIO was unable to provide evidence that changes to the LAN/WAN were appropriately tracked, approved, and implemented.

- Ineffective software program change controls in the Joint Administrative and Accounting Management System (JAAMS) directly led to duplicate payments in the amount of $11,205,608.

- The Office of the Chief Financial Officer (OCFO) was unable to provide evidence that the software change requests were consistently completed for JAAMS and the Financial Reporting Information System (FRIS).

- The OCIO was unable to provide evidence that baseline configurations for LAS were updated in a timely manner. Documented baseline configurations enable the process of tracking and controlling software changes, especially as system security settings are changed.

- The Office of the Chief Operating Officer (OCOO), in conjunction with SBA program offices, has not documented segregation of duty procedures for LAS. Consequently, we could not validate that incompatible software change duties were appropriately segregated. This issue was also identified in fiscal year 2007, and SBA was still in the process of implementing corrective actions during fiscal year 2008.

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Exhibit I

U.S. Small Business Administration

Significant Deficiency

Recommendations – Software Program Changes:

We recommend the following:

8. ODA management ensures the consistent application of controls and procedures to document the DCMS baseline configuration.
9. OCIO management consistently apply procedures for documenting software change testing results, testing approvals, and final approvals. Specifically, such procedures and controls need to be consistently applied for LAS, E-TRAN, and LAN/WAN.
10. OCFO management consistently apply procedures for documenting software change testing results, testing approvals, and final approvals for JAAMS and FRIS.
11. OCIO management ensures the consistent application of controls and procedures to document the LAS baseline configuration.
12. OCOO, in conjunction with program offices, document and implement segregation of duty policies and procedures for LAS.

End-User Computing

End-user computing tools/programs (e.g., spreadsheets and other user-developed programs) present the need for a unique set of general control needs within an organization. By its nature, end-user computing brings the development and processing of information systems closer to the user. End-user computing capabilities typically include access to any end-user developed programs or objects, such as spreadsheets that contain critical data/information. Critical data/information could include Personally Identifiable Information (PII) and financial data. While this environment may not typically be subjected to the same level of rigor and structure as an IT general controls environment, policies and procedures in this area are important to the overall IT environment. We noted many SBA program offices, including the OCFO, Office of Capital Access, and Office of Human Capital Management, have not implemented end-user computing policies and procedures set forth and provided by the OCIO to identify, track, and protect end-user programs containing sensitive information.

Recommendations – End-User Computing:

13. We recommend that the OCIO reemphasize the importance to SBA program offices of controlling end-user programs containing sensitive data, such as PII and financial data, in accordance with OCIO policy.

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Exhibit II

U.S. Small Business Administration

Status of Prior Year Noncompliance

Fiscal Year 2007 Noncompliance	**Fiscal Year 2008 Status of Noncompliance**
Debt Collection Improvement Act of 1996 (DCIA) During our audit for fiscal year 2007, we noted that SBA did not consistently follow Treasury guidelines when referring delinquent debts for collection in accordance with DCIA. Specifically, we noted that 47 of 140 delinquent debt referral transactions tested were not referred timely or were coded improperly in SBA's Loan Accounting System. These exceptions prompted SBA to examine if there were additional loans that were improperly referred to Treasury. As a result of this examination, management determined it did not refer approximately 24,000 delinquent debts for Treasury in accordance with DCIA. SBA management believes that the issue stems from outdated standard operating procedures and a lack of clear instructions to field offices regarding the referral of delinquent debt to Treasury. Towards the end of fiscal year 2007, SBA management established revised protocols that provide clear instructions to field offices to ensure compliance with DCIA.	The results of our tests of compliance with DCIA in fiscal year 2008 disclosed no instances in which SBA is in substantial noncompliance with DCIA.

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Exhibit III

U.S. Small Business Administration

Status of Prior Year Significant Deficiency

Fiscal Year 2007 Findings	**Fiscal Year 2008 Status of Findings**
1. Improvement needed in management information technology security controls	During our review of SBA's information technology (IT) general and application controls, we noted improvements in formalizing policies and procedures over sanctioning contractors that don't complete annual computer security awareness training, increasing storage space for audit logs and retention of the logs themselves, implementing day-to-day data center employee responsibilities and end-user computing user-level access control policies, and finalizing Change Control Board Charter for enterprise-wide changes. However, we continued to identify opportunities for SBA to improve its internal controls. The control deficiencies that continue to exist are in the following areas: security access controls, software program changes, and end-user computing. Therefore, in fiscal year 2008, the presentation of the issue was modified to reflect current year operations, and we continue to report a significant deficiency in internal controls as it relates to IT systems and their impact on the consolidated financial statements. See Exhibit I for additional information.

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Exhibit IV

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

CFO Response to Draft Audit Report on FY 2008 Financial Statements

DATE: November 14, 2008

TO: Debra Ritt, Assistant IG for Auditing

FROM: Jennifer Main, Chief Financial Officer

SUBJECT: Draft Audit Report on FY 2008 Financial Statements

The Small Business Administration is in receipt of the draft Independent Auditors' Report from KPMG that includes the auditor's opinion on the financial statements and review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are delighted that the SBA has again received an unqualified audit opinion from the independent auditor with no reported material weaknesses. Additionally, the report found that SBA is in compliance with all applicable laws and regulations again this year. We believe these results accurately reflect the quality of the Agency's financial statements and our improved accounting, budgeting and reporting processes. As you know, the SBA has worked hard over the past several years to address the many findings from our independent auditors. Our core financial reporting data and processes have improved substantially and we are proud that the results of our efforts have been confirmed by the independent auditor.

The audit report, however, includes a continuing significant deficiency in the SBA's information technology controls. While we appreciate the recognition in the report of the substantial progress the SBA has made in this area, we are nonetheless disappointed that the significant improvements we have made were not sufficient for the auditor to eliminate this finding. During FY 2008, the SBA's Office of the Chief Information Officer instituted several processes to strengthen information security controls and took a multitude of corrective actions to address previous audit findings, closing 24 out of 41 previous findings. In addition, OCIO made significant progress on the SBA's Management Challenges reported by our Inspector General, scoring green on two key critical areas affecting service continuity controls and computer security training. We do, however, recognize that further improvements are needed in SBA's information

Federal Recycling Program Printed on Recycled Paper

Exhibit IV

technology controls, and the SBA is committed to taking all necessary action to eliminate this significant deficiency in future audit reports.

We appreciate all of your efforts and those of your colleagues in the Office of the Inspector General as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that will further enhance SBA's financial management practices. We continue to be committed to excellence in financial management and look forward to making more progress in the coming year.

Financial Statements and Notes

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The statements are, in addition to other financial reports, used to monitor and control budgetary resources. The SBA prepares these financial statements from its books and records in accordance with the accounting principles generally accepted in the United States for federal entities and the formats prescribed by the Office of Management and Budget.

The **Consolidated Balance Sheet** summarizes the assets, liabilities and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources is consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government, but are not reflected in the SF 133. The SBA included offsetting receipts in this statement for the purpose of reconciling outlay information presented to the Budget of the United States Government.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

The **Required Supplementary Stewardship Information** provides information on SBA's investment in human capital.

U. S. Small Business Administration

Consolidated Balance Sheet

as of September 30, 2008 and 2007

(Dollars in Thousands)

	2008	2007
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 3,880,755	$ 6,095,443
Total Intragovernmental Assets	3,880,755	6,095,443
Assets - Public and Other		
Cash (Note 3)	3,972	17,102
Accounts Receivable (Note 5)	34,528	43,478
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	8,522,941	8,337,462
General Property and Equipment, Net (Note 7)	4,417	1,504
Advances	1,602	
Total Assets - Public and Other	8,567,460	8,399,546
Total Assets	**$ 12,448,215**	**$ 14,494,989**
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	$ 3,430	$ 2,801
Debt (Note 9)	9,473,227	11,383,188
Net Assets of Liquidating Funds Due to Treasury (Note 10)	104,789	136,273
Downward Reestimate Payable to Treasury (Note 1, Note 13)	466,887	645,826
Other (Note 8, Note 11)	19,554	20,054
Total Intragovernmental Liabilities	10,067,887	12,188,142
Other Liabilities - Public		
Accounts Payable (Note 1)	69,184	30,249
Accrued Grant Liability (Note 1)	60,000	50,000
Liability for Loan Guaranties (Note 6)	1,825,551	1,737,860
Federal Employee Compensation Act Actuarial Liability (Note 1, Note 8)	27,061	26,321
Surety Bond Guarantee Program Future Claims (Note 8)	24,764	23,588
Other (Note 8, Note 11)	39,638	35,961
Total Other Liabilities - Public	2,046,198	1,903,979
Total Liabilities	**12,114,085**	**14,092,121**
NET POSITION		
Unexpended Appropriations (Note 1)	1,696,866	974,211
Cumulative Results of Operations (Note 1)	(1,362,736)	(571,343)
Total Net Position	**334,130**	**402,868**
Total Liabilities and Net Position	**$ 12,448,215**	**$ 14,494,989**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Net Cost

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	2008	2007
STRATEGIC GOAL 1: Expand America's Ownership Society, Particularly in Underserved Markets		
Gross Cost	$ 995,731	$ 534,272
Less: Earned Revenue	149,322	192,055
Net Cost of Strategic Goal 1	**846,409**	**342,217**
STRATEGIC GOAL 2: Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster		
Gross Cost	1,053,030	1,152,592
Less: Earned Revenue	468,168	526,218
Net Cost of Strategic Goal 2	**584,862**	**626,374**
STRATEGIC GOAL 3: Improve Economic Environment for Small Business		
Gross Cost	14,114	24,694
Net Cost of Strategic Goal 3	**14,114**	**24,694**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	119,931	67,305
Net Cost Not Assigned to Strategic Goals	**119,931**	**67,305**
Net Cost of Operations	**$ 1,565,316**	**$ 1,060,590**

Note 12, Note 14

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Changes in Net Position

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	2008	2007
Beginning Cumulative Results of Operations	**$ (571,343)**	**$ (773,787)**
Budgetary Financing Sources		
Appropriations Used	1,317,809	2,122,708
Donations of Cash and Cash Equivalents		12
Transfers-Out Without Reimbursement		(150,000)
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	24,014	21,091
Other - Adjustment Rescissions		(6,192)
Other - Current Year Liquidating Equity Activity	(4,502)	(9,543)
Other - Non-entity Activity	(563,398)	(715,042)
Total Financing Sources	**773,923**	**1,263,034**
Less: Net Cost of Operations	**1,565,316**	**1,060,590**
Ending Cumulative Results of Operations	**$ (1,362,736)**	**$ (571,343)**
Beginning Unexpended Appropriations	**$ 974,211**	**$ 1,839,288**
Budgetary Financing Sources		
Appropriations Received	2,060,201	1,314,748
Rescissions		(7,354)
Adjustment - Cancelled Authority	(8,446)	(21,236)
Other Adjustments	(11,291)	(28,527)
Appropriations Used	(1,317,809)	(2,122,708)
Total Budgetary Financing Sources	**722,655**	**(865,077)**
Ending Unexpended Appropriations	**$ 1,696,866**	**$ 974,211**
Ending Net Position	**$ 334,130**	**$ 402,868**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	September 30, 2008		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance			
Brought Forward October 1	$ 622,764	$ 4,678,380	$ 5,301,144
Recoveries of Prior Year Obligations	101,875	476,638	578,513
Budget Authority			
Appropriations Received	2,060,201		2,060,201
Borrowing Authority		1,346,805	1,346,805
Spending Authority from Offsetting Collections			
Earned	399,344	3,558,120	3,957,464
Change in Unfilled Customer Orders	(103,640)	(98,469)	(202,109)
Total Budget Authority	2,355,905	4,806,456	7,162,361
Nonexpenditure Transfers, Net			
Budget Authority			
Permanently Not Available	(62,668)	(3,869,296)	(3,931,964)
Total Budgetary Resources	**$ 3,017,876**	**$ 6,092,178**	**$ 9,110,054**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred, Net			
Direct	$ 973,991	$ 4,545,113	$ 5,519,104
Reimbursable	614,131		614,131
Total Obligations Incurred, Net	1,588,122	4,545,113	6,133,235
Unobligated Balances, Available	210,390	1,152,426	1,362,816
Unobligated Balances, Not Available	1,219,364	394,639	1,614,003
Total Status of Budgetary Resources	**$ 3,017,876**	**$ 6,092,178**	**$ 9,110,054**
CHANGE IN OBLIGATED BALANCES			
Obligated Balance Brought Forward, Net October 1			
Unpaid Obligations Brought Forward	$ 501,180	$ 1,090,147	$ 1,591,327
Uncollected Customer Payments from Federal Sources Brought Forward		(177,332)	(177,332)
Total Obligated Balance Brought Forward, Net	501,180	912,815	1,413,995
Obligations Incurred	1,588,122	4,545,113	6,133,235
Gross Outlays	(1,565,797)	(4,597,457)	(6,163,254)
Recoveries of Prior Year Unpaid Obligations	(101,875)	(476,638)	(578,513)
Change in Uncollected Customer Payments from Federal Sources		98,469	98,469
Obligated Balance, Net, End of Period			
Unpaid Obligations	421,630	561,165	982,795
Uncollected Customer Payments from Federal Sources		(78,863)	(78,863)
Total Obligated Balance, Net, End of Period	**$ 421,630**	**$ 482,302**	**$ 903,932**
NET OUTLAYS			
Gross Outlays	$ 1,565,797	$ 4,597,457	$ 6,163,254
Offsetting Collections	(295,703)	(3,558,120)	(3,853,823)
Net Outlays Before Offsetting Receipts	1,270,094	1,039,337	2,309,431
Offsetting Receipts	(240)	(742,338)	(742,578)
Net Outlays	**$ 1,269,854**	**$ 296,999**	**$ 1,566,853**

Note 15

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	September 30, 2007		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance			
Brought Forward October 1	$ 859,670	$ 6,811,358	$ 7,671,028
Recoveries of Prior Year Obligations	428,368	2,756,956	3,185,324
Budget Authority			
Appropriations Received	1,314,746		1,314,746
Borrowing Authority		2,966,102	2,966,102
Spending Authority from Offsetting Collections			
Earned	462,531	4,263,659	4,726,190
Change in Unfilled Customer Orders	123,320	(616,331)	(493,011)
Total Budget Authority	1,900,597	6,613,430	8,514,027
Nonexpenditure Transfers, Net			
Budget Authority	(150,000)		(150,000)
Permanently Not Available	(119,786)	(7,115,706)	(7,235,492)
Total Budgetary Resources	**$ 2,918,849**	**$ 9,066,038**	**$ 11,984,887**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred, Net			
Direct	$ 1,346,019	$ 4,387,658	$ 5,733,677
Reimbursable	950,066		950,066
Total Obligations Incurred, Net	2,296,085	4,387,658	6,683,743
Unobligated Balances, Available	545,328	1,585,198	2,130,526
Unobligated Balances, Not Available	77,436	3,093,182	3,170,618
Total Status of Budgetary Resources	**$ 2,918,849**	**$ 9,066,038**	**$ 11,984,887**
CHANGE IN OBLIGATED BALANCES			
Obligated Balance Brought Forward, Net October 1			
Unpaid Obligations Brought Forward	$ 1,168,079	$ 5,440,067	$ 6,608,146
Uncollected Customer Payments from Federal Sources Brought Forward		(793,663)	(793,663)
Total Obligated Balance Brought Forward, Net	1,168,079	4,646,404	5,814,483
Obligations Incurred	2,296,085	4,387,658	6,683,743
Gross Outlays	(2,534,616)	(5,980,622)	(8,515,238)
Recoveries of Prior Year Unpaid Obligations	(428,368)	(2,756,956)	(3,185,324)
Change in Uncollected Customer Payments from Federal Sources		616,331	616,331
Obligated Balance, Net, End of Period			
Unpaid Obligations	501,180	1,090,147	1,591,327
Uncollected Customer Payments from Federal Sources		(177,332)	(177,332)
Total Obligated Balance, Net, End of Period	**$ 501,180**	**$ 912,815**	**$ 1,413,995**
NET OUTLAYS			
Gross Outlays	$ 2,534,616	$ 5,980,622	$ 8,515,238
Offsetting Collections	(585,851)	(4,263,659)	(4,849,510)
Net Outlays Before Offsetting Receipts	1,948,765	1,716,963	3,665,728
Offsetting Receipts	(106)	(773,723)	(773,829)
Net Outlays	**$ 1,948,659**	**$ 943,240**	**$ 2,891,899**

Note 15

The accompanying notes are an integral part of these statements.

Note 1. Significant Accounting Policies

(Dollars in Thousands, except as noted)

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting and protecting the interests of small businesses and to help businesses and families recover from disasters. The SBA operates through the execution of a congressionally approved budget that funds its programs.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position and results of its operations as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's books and records in accordance with generally accepted accounting principles in the United States of America and the formats prescribed by the Office of Management and Budget. The statements are in addition to the other financial reports that are used to monitor and control budgetary resources. As a federal agency, the SBA cannot incur obligations without authority from the Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis, in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the U. S. Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal obligation or restriction of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

Use of Estimates

SBA's management makes assumptions and estimates to prepare the financial statements, based upon the facts that exist when the statements are prepared. Actual results may differ from those estimates and the differences may be significant. The most significant differences between actual results and SBA's estimates may occur in the valuation of credit program receivables under the Federal Credit Reform Act of 1990 guidelines. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions, including economic variables, and uses continual review of model factors, statistical modeling and annual reestimates to reflect the most accurate cost of the credit programs to the U. S. Government.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the U. S. Department of the Treasury for the remaining non-subsidized portion of the loans. The Congress may provide one year, multi-year or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments and default recoveries. The Congress limits the dollar amount of obligations that can be made for direct loans and loan guaranties in its annual appropriation bill.

A permanent indefinite appropriation is available to finance any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the Federal Credit Reform Act of 1990 (FCRA), the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for the Treasury borrowings and the collection of loan fees, repayments, default recoveries and disbursement of loans.

Accounts Payable

Accounts Payable are amounts due to public entities that will be liquidated during the next operating cycle. Included in the liability are payables to lender banks for the bank share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount to be accrued is determined through an analysis of historic grant expenditures. The Small Business Development Program and several other grant programs are subject to this treatment.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA's operations. The likelihood of loss to the SBA ranges from remote to a reasonably possible amount of $1.2 million. These activities will be monitored and recognized if a loss becomes probable.

Cumulative Results of Operations

Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenditures and financing sources since the inception of the Agency. Unfunded expenses do not yet have a financing source and thus increase the loss the SBA reports as Cumulative Results of Operations. The largest category of unfunded expenses at the SBA is year-end reestimates which are funded in the following year. The majority of the Cumulative Results of Operations reported results from these unfunded reestimates.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Employee Benefits

Leave

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are reported as unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance Benefits

The SBA employees may choose to participate in the contributory Federal Employees Health Benefit and the Federal Employees Group Life Insurance Programs. The SBA matches a portion of the employee contributions to each program. Matching contributions are recognized as current operating expenses.

Employee Pension Benefits

The SBA employees participate in either the Civil Service Retirement System or the Federal Employees' Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act, administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

Imputed Financing Costs

The SBA recognizes the full cost of providing all employee and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management which administers the retirement programs for the SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes the imputed costs as current operating expense in the Statement of Net Cost and as a part of net cost funded by an imputed financing source included in determining SBA's net position.

Federal Employees Compensation Act

The Federal Employees Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor. Labor pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. Labor also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

Note 2. Fund Balance with Treasury

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. SBA's cash receipts are deposited to accounts at the Treasury. SBA's fund balances with the Treasury are available to make expenditures, except for expired year amounts. Separate records are maintained for SBA's program, financing, liquidating and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Appropriated Funds	$ 1,781,718	$ 1,043,015
Financing Funds	2,029,367	4,971,495
Liquidating Funds	38,394	53,592
Revolving Fund	30,994	27,027
Trust Fund	278	310
Total Entity Fund Balance with Treasury	**3,880,751**	**6,095,439**
Non-Entity Fund Balance	**4**	**4**
Total Fund Balance with Treasury	**$ 3,880,755**	**$ 6,095,443**
Status of Fund Balance with Treasury		
Unobligated Balance Available	$ 1,362,816	$ 2,130,526
Unobligated Balance Unavailable	1,614,003	3,170,618
Obligated Balance Not Yet Disbursed	903,932	1,413,995
Borrowing Authority Not Converted to Funds		(619,700)
Nonbudgetary	4	4
Total Fund Balance with Treasury	**$ 3,880,755**	**$ 6,095,443**

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

Note 3. Cash

The SBA field offices deposit collections from borrowers in the Treasury General Accounts at financial institutions for credit to SBA's account at the Treasury. Collections temporarily held by the SBA offices pending deposit at the end of the fiscal year are recorded as Undeposited Collections – Cash in Transit and total $3.9 million and $17.1 million at September 30, 2008 and 2007. The $17.1 million in FY 2007 resulted from increased receipts for Gulf Coast hurricane loans that were processed in early 2008.

Note 4. Master Reserve Fund

When Congress enacted the Small Business Secondary Market Improvement Act of 1984, it authorized the SBA to guarantee the timely payment of principal and interest on trust certificates representing an ownership interest in a pool of the guarantied portions of the SBA 7(a) loans. The SBA provides the guaranty through the Secondary Market Guaranty program. The program encompassed $14.9 billion and $14.1 billion of outstanding trust certificate principal at September 30, 2008 and 2007. The guaranty of timely payment on trust certificates is distinct from the guaranty against default on the underlying 7(a) loans. The SBA established the Master Reserve Fund to facilitate the operation of the SMG program. The MRF is an account through which all payments from the underlying 7(a) loans and remittances to trust certificate investors flow.

The cost of the SMG program depends on several factors, including the difference in the maturity terms of the trust certificates and underlying 7(a) loans, the cash flow performance of the underlying loans and the spread between trust certificate coupon rates and yields available on Treasury investment instruments. Estimates for the cash flow performance of the 7(a) loans underlying the SMG pools are derived directly from the 7(a) subsidy model.

In the SMG program, each trust certificate is typically backed by loans with a range of maturity terms. Because the trust certificate takes on the maturity of the longest-term underlying loan, it amortizes more slowly than most of its underlying loans. As a result, loan payments that will ultimately be paid out to the trust certificate holders temporarily accumulate in the MRF. Typically, the investment rate earned on these accumulated funds is less than the coupon rate that must be paid to trust certificate holders; this negative spread is the primary source of the cost of the SMG program. The magnitude of the cost depends on how long the temporary accumulation of funds in the MRF persists and on the size of the spread. The costs are offset by interest earned on loan payments and prepayments that are temporarily held in the MRF before being disbursed to certificate holders.

The cost of the SMG program's timely payment is being accounted for under the requirements of the Federal Credit Reform Act of 1990. Also, the cost of the SMG program is reestimated annually and included in SBA's financial statements. The SBA changed some aspects of the program beginning in FY 2005 to achieve a zero subsidy cost for the SMG. Changes included expediting the pass-through of partial prepayments and no longer retaining in the MRF the principal portion of the first payment on newly issued trust certificates. Both of these changes served to reduce the accumulation of funds in the MRF, where they would earn a lower investment return than the coupon rate payable to trust certificate holders. See Note 6I for a further discussion of this topic.

The MRF balance is invested entirely in the Treasury securities and repurchase agreements backed by the Treasury securities. MRF investments are managed by SBA's fiscal transfer agent, with oversight provided by SBA's MRF Investment Committee. MRF assets are fiduciary in nature and are held outside of the Treasury. In accordance with current federal reporting standards, they do not appear in the principal financial statements of the SBA.

The composition of the MRF and a reconciliation of the changes in MRF assets are included in the following table:

MASTER RESERVE FUND ASSETS

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Short Term Securities		
Money Market Funds	$ 9,300	$ 52,975
Treasury Bills	193,354	99,805
Repurchase Agreements	222,078	395,000
Total Short Term Securities	**424,732**	**547,780**
Long Term Securities		
Treasury Notes Including Interest	1,467,158	1,334,153
Total Long Term Securities	**1,467,158**	**1,334,153**
Net Assets	**$ 1,891,890**	**$ 1,881,933**

RECONCILATION OF MRF ASSETS

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Beginning Net Assets	**$ 1,881,933**	**$ 1,805,812**
Receipts		
Loan Payments from Borrowers	1,581,862	1,765,357
Prepayments and Default Payments	2,814,968	3,583,241
Earned Income	72,757	81,114
Net Realized Gain (Loss)	4,204	(11,341)
Total Receipts	**4,473,791**	**5,418,371**
Less Disbursements		
Payments to Investors	4,461,084	5,339,331
Expenses	2,750	2,919
Total Disbursements	**4,463,834**	**5,342,250**
Ending Net Assets	**$ 1,891,890**	**$ 1,881,933**

Note 5. Accounts Receivable

Accounts receivable consists of amounts owed to the SBA by the public. Amounts due from the public are presented net of an allowance for uncollectible Surety Bond Guarantee Program receivables. This allowance is based on an analysis of the aging of the delinquent outstanding balances. The uncollectible or unrecoverable amounts for Guaranty Fees Receivable and Refunds are not significant and no allowance is provided.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Public		
Guaranty Fees Receivable	$ 21,620	$ 32,715
Refunds	4,486	3,718
Other	11,284	11,045
Total Public	**37,390**	**47,478**
Allowance For Loss	(2,862)	(4,000)
Net Public	**$ 34,528**	**$ 43,478**

Note 6. Credit Program Receivables and Liability for Loan Guaranties

A. Loan Program Descriptions and Cost Determinations

Loan Program Descriptions

The SBA administers guarantied and direct loan programs that help small businesses obtain financing, and a direct loan program that assists homeowners, renters and businesses to recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Business	Guarantied	7(a) Loan Guaranty
Business	Direct	7(m) Microloan
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debenture
Business	Guarantied	Small Business Investment Company Participating Securities
Business	Guarantied	Secondary Market Guaranty
Disaster	Direct	Disaster Assistance Loans

SBA's business loan programs include its flagship 7(a) Loan Guaranty Program in which the SBA guarantees up to 90 percent of the principal amount of loans made by banks and other lending institutions to small businesses not able to obtain credit elsewhere. The Section 504 Certified Development Company Program guarantees principal and interest payments on debentures issued by development companies that make small business loans secured primarily by real estate. The Small Business Investment Company Debentures and Participating Securities Programs guarantee principal and interest payments on securities issued by investment capital firms, which in turn make investments in small businesses. The 7(m) Microloan Program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $35,000 to eligible small businesses. See Note 4 for further discussion of the Secondary Market Guaranty.

SBA's Disaster Assistance Loan Program makes direct loans to disaster victims under four categories: (1) loans for homes and personal property, (2) physical disaster loans to businesses of any size, (3) economic injury loans to small businesses without credit available elsewhere and (4) economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for home loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

Credit Program Receivables and Liabilities for Loan Guaranties

The Federal Credit Reform Act of 1990 governs direct loans made after FY 1991. FCRA loans are valued at the present value of expected future cash flows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance account represents the difference between the outstanding loan receivables balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

The FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's balance sheet. The liability is determined by calculating the net present value of expected future cash flows for outstanding guaranties in a manner similar to that used to determine the subsidy allowance for direct loans. Guarantied loans purchased by the SBA upon borrower default are established as loan receivables and are valued in a similar manner as direct loans under the FCRA.

Direct loans made prior to the FCRA are recorded at cost with an allowance for uncollectible amounts calculated using historical loss experience. For loan guaranties made prior to the FCRA, a liability for expected future losses on outstanding guaranties is established based on historical experience. Guarantied loans purchased upon borrower default are established as loan receivables with an allowance for losses based on historical loss experience.

The SBA advances payments semiannually to the Federal Financing Bank for loans guarantied under Section 503 of the Small Business Act. The advances are liquidated by receipt of the installment payments on loans made by state and local development companies. To the extent that those installments may not repay advances, balances from development companies that remain collectible are reported as credit program receivables.

Advances are similarly made to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's Section 504 Certified Development Company and Small Business Investment Company Programs. These advances are also reported as credit program receivables.

Subsidy Funding under Federal Credit Reform

The FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans approved is termed the subsidy rate. The SBA receives appropriations annually to fund its credit programs based on that subsidy rate applied to the credit program level approved by the Congress. Then, when loans are disbursed, the SBA records subsidy expense. In accordance with the FCRA, subsidy costs are reestimated annually.

Interest Receivable

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guarantied loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on non-performing loans in excess of 90 days delinquent. Purchased interest is carried at cost. A 100 percent loss allowance is established for all purchased interest on non-performing loans made prior to FY 1992.

Foreclosed Property

Foreclosed property is comprised of real and business-related property acquired through foreclosure of loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. SBA's foreclosed property inventory has declined in recent years as SBA's lending partners have assumed more of the liquidation responsibilities. At September 30, 2008 SBA's foreclosed property was $24.3 million related to 71 loans. The properties had been held for an average of 1,076 days. At September 30, 2007 foreclosed property was $14.3 million related to 62 loans. The properties had been held for an average of 1,232 days.

Valuation Methodology for Post-1991 Direct Loans and Loan Guaranties

Direct and guarantied loans committed after FY 1991 are based on the net present value of their expected future cash flows. The SBA estimates future cash flows for guarantied and direct loans using economic and financial credit subsidy models. The SBA has developed a customized credit subsidy model for each of its major loan guaranty and direct loan programs.

SBA's models vary in the specific methodologies they employ to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the Office of Management and Budget's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data used as the basis for program performance assumptions is drawn primarily from data systems maintained by the SBA and its contractors. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models vary by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity and grace period
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates, and recovery rates
- Loan fee rates

Valuation Methodology for Pre-1992 Direct Loans and Loan Guaranties

The SBA values pre-credit reform direct and defaulted guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and defaulted guarantied loans that are past due more than 180 days.

A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2008	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 28,253	$ 114,620	$ 142,873
Interest Receivable	2,325	1,299	3,624
Foreclosed Property	3,104		3,104
Allowance	(1,741)	(26,378)	(28,119)
Total Direct Business Loans	**31,941**	**89,541**	**121,482**
Direct Disaster Loans			
Disaster Loans Receivable	16,595	8,609,972	8,626,567
Interest Receivable	121	35,649	35,770
Foreclosed Property		999	999
Allowance	(978)	(1,574,082)	(1,575,060)
Total Direct Disaster Loans	**15,738**	**7,072,538**	**7,088,276**
Defaulted Guarantied Business Loans & Other Loan Receivables			
Defaulted Guarantied Business Loans	56,127	3,510,385	3,566,512
Other Loans Receivable (see note below)		627,007	627,007
Interest Receivable	458	14,453	14,911
Foreclosed Property	3,467	16,701	20,168
Allowance	(29,288)	(2,886,127)	(2,915,415)
Total Defaulted Guarantied Business Loans & Other Loan Receivables	**30,764**	**1,282,419**	**1,313,183**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 8,522,941**

AS OF SEPTEMBER 30, 2007	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 23,305	$ 122,463	$ 145,768
Interest Receivable	1,527	1,050	2,577
Foreclosed Property	3,293		3,293
Allowance	(4,375)	(11,019)	(15,394)
Total Direct Business Loans	**23,750**	**112,494**	**136,244**
Direct Disaster Loans			
Disaster Loans Receivable	21,620	8,966,313	8,987,933
Interest Receivable	161	40,864	41,025
Foreclosed Property		944	944
Allowance	(2,474)	(1,563,019)	(1,565,493)
Total Direct Disaster Loans	**19,307**	**7,445,102**	**7,464,409**
Defaulted Guarantied Business Loans & Other Loan Receivables			
Defaulted Guarantied Business Loans	73,855	3,204,640	3,278,495
Other Loans Receivable (see note below)		697,802	697,802
Interest Receivable	2,855	16,625	19,480
Foreclosed Property	3,594	6,495	10,089
Allowance	(33,597)	(3,235,460)	(3,269,057)
Total Defaulted Guarantied Business Loans & Other Loan Receivables	**46,707**	**690,102**	**736,809**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 8,337,462**

Note: Other Loan Receivables include payments advanced by the SBA against future reimbursements in the SBIC and 504 Guaranty Programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ending September 30,	2008	2007
Business Direct Loan Program	$ 16,429	$ 16,426
Disaster Loan Program	860,629	3,268,258
Total Direct Loans Disbursed	**$ 877,058**	**$ 3,284,684**

Outstanding Loan Obligations as of September 30,	2008	2007
Business Direct Loan Program	$ 25,576	$ 25,238
Disaster Loan Program	468,200	1,037,396
Total Direct Loan Obligations	**$ 493,776**	**$ 1,062,634**

GUARANTIED LOANS

New Loans Disbursed During the Year Ending September 30,	2008	2007
Total Principal Disbursed at Face Value	$ 18,152,218	$ 19,068,952
Total Principal Disbursed Guarantied by the SBA	14,685,373	15,121,280

Outstanding Loan Obligations as of September 30,	2008	2007
Business Guarantied Loan Programs	$ 11,335,863	$ 13,193,002

Loans Outstanding as of September 30,	2008	2007
Total Principal Outstanding at Face Value	$ 75,088,280	$ 71,530,436
Total Principal Outstanding Guarantied by the SBA	61,709,613	58,413,188

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 3,246,479**	**$ 3,140,440**
Current Year's Subsidy (see 6G for breakdown by component)	1,579	1,408
Loans Written Off	(1,420,426)	(539,195)
Subsidy Amortization	(2,521)	(3,153)
Allowance Related to Guarantied Loans Purchased This Year	1,032,790	598,852
Miscellaneous Recoveries and Costs	42,351	55,503
Balance of Subsidy Allowance Account before Reestimates	2,900,252	3,253,855
Technical Assumptions/Default Reestimates	12,253	(7,376)
Ending Balance of Allowance Account	**$ 2,912,505**	**$ 3,246,479**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 1,563,019**	**$ 1,400,200**
Current Year's Subsidy (see 6G for breakdown by component)	141,716	500,002
Loans Written Off	(331,081)	(106,920)
Subsidy Amortization	(37,692)	(52,646)
Miscellaneous Recoveries and Costs	28,020	14,923
Balance of Subsidy Allowance Account before Reestimates	1,363,982	1,755,559
Technical Assumptions/Default Reestimates	210,100	(192,540)
Ending Balance of Allowance Account	**$ 1,574,082**	**$ 1,563,019**

E. Loan Guaranty Liability Balances

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 1,113**	**$ 1,042**
Adjustment to Expected Losses, Guaranties Outstanding	(297)	71
Ending Balance of Liability for Loan Guaranties	**816**	**1,113**
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**1,736,747**	**1,629,779**
Current Year's Subsidy (see 6G for breakdown by component)	3,270	3,390
Fees	654,399	639,171
Interest Accumulation Factor	(1,483)	49,140
Claim Payments to Lenders	(2,111,223)	(1,008,738)
Adjustment Due to Reestimate & Guarantied Loan Purchases	1,078,433	409,886
Miscellaneous Recoveries and Costs	39,774	45,685
Balance of Liability for Loan Guaranties before Reestimates	1,399,917	1,768,313
Technical Assumptions/Default Reestimates	424,818	(31,566)
Ending Balance of Liability for Loan Guaranties	**1,824,735**	**1,736,747**
Total Ending Balance of Liability for Loan Guaranties	**$ 1,825,551**	**$ 1,737,860**

F. 2008 Subsidy Rates by Program and Component

LOAN PROGRAMS	Financing	Default	Fees	Other	Total Rate
Direct Loan Programs					
Microloan	8.37%	-0.05%		1.80%	10.12%
Disaster Loan	11.47%	10.25%		-5.45%	16.27%
Guaranty Business Loan Programs					
7(a)		3.37%	-3.37%		0.00%
504 CDC		1.71%	-2.05%	0.34%	0.00%
SBIC Debenture		7.17%	-7.20%	0.03%	0.00%

The subsidy rates in Table F above pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Table G result from the disbursement of loans obligated in the current year as well as in prior years, and includes reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Business Loan Guaranties		
Defaults	$ 3,952	$ 4,236
Fees	(679)	(849)
Other	(3)	3
Subsidy Expense Before Reestimates	3,270	3,390
Reestimates	424,817	(31,566)
Total Guarantied Business Loan Subsidy Expense	**$ 428,087**	**$ (28,176)**
Business Direct Loans		
Interest	$ 1,414	$ 1,340
Defaults	6	27
Other	159	41
Subsidy Expense Before Reestimates	1,579	1,408
Reestimates	12,253	(7,376)
Total Business Direct Loan Subsidy Expense	**$ 13,832**	**$ (5,968)**
Disaster Direct Loans		
Interest	$ 88,583	$ 283,167
Defaults	84,837	310,722
Fees	(5)	(1)
Other	(31,699)	(93,886)
Subsidy Expense Before Reestimates	141,716	500,002
Reestimates	210,100	(192,540)
Total Disaster Direct Loan Subsidy Expense	**$ 351,816**	**$ 307,462**

H. Administrative Expenses

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are:

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
Disaster Direct Loan Programs	$ 204,991	$ 267,799
Business Loan Programs	135,796	124,314
Total Administrative Expense	**$ 340,787**	**$ 392,113**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2008 for all of SBA's large loan programs and with nine months of actual and three months of projected performance data for the Secondary Market and the small loan programs.

Business Guarantied Loan Programs

Net Subsidy reestimates for Business Guarantied Loan Programs follows:

(Dollars in Thousands)

Guarantied Loan Program Subsidy Reestimates		2008		2007
7(a) Loan Guaranty	$	574,840	$	51,975
7(a) Star		7,273		(5,729)
504 CDC Debentures		484,921		(30,391)
SBIC Debentures		(158,402)		(101,878)
SBIC Participating Securities		(492,386)		50,537
Secondary Market Guaranty Program		10,196		1,784
All Other Guaranty Loan Programs		(1,625)		2,136
Total Guarantied Loan Program Subsidy Reestimates	**$**	**424,817**	**$**	**(31,566)**

The 7(a) Loan Guaranty Program, SBA's flagship and largest program, had the largest net upward reestimates for the guarantied business loan programs in FY 2008. The net upward reestimates of $574.8 million were mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The 504 Certified Development Companies Program had net upward reestimates of $484.9 million that was also mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The performance of SBA's venture capital programs continued to improve into FY 2008. The SBIC Participating Securities and the SBIC Debentures programs had net downward reestimates of $492.4 million and $158.4 million, respectively. The downward reestimates for those programs are due to a reduction in projected purchases and an increase in actual and projected recoveries in the remaining performance years within the cohorts based on additional actual performance data.

The $10.1 million net upward reestimate in FY 2008 for the Secondary Market Guaranty program was because the 2005 through 2007 cohorts had upward reestimates. The upward reestimate for those cohorts are primarily the result of lower than projected returns from investments in Treasury securities within the Master Reserve Fund during FY 2008 and, based on mid-session economic assumptions, lower projected returns in the future.

Business Direct Loan Programs

The 7(m) Direct Microloan program had the most significant reestimates for SBA's Direct Business Loan Programs for FY 2008. That program had $13.2 million in net upward reestimates because of an increase in actual and projected defaults of loans to Micro Lenders.

Subsidy reestimates for Business Direct Loan Program follow:

(Dollars in Thousands)

Business Direct Loan Program Subsidy Reestimates	**2008**	**2007**
7(m) Microloan	$ 13,199	$ 4,568
SBIC Preferred Stock	(944)	(11,797)
All Other Direct Loan Programs	(2)	(147)
Total Direct Loan Program Subsidy Reestimates	**$ 12,253**	**$ (7,376)**

Disaster Direct Loan Programs

Subsidy reestimates for disaster direct loan programs follow:

(Dollars in Thousands)

Disaster Direct Loan Program Subsidy Reestimates	**2008**	**2007**
Disaster	$ 208,430	$ (185,134)
World Trade Center Disaster	1,670	(7,406)
Total Disaster Direct Loan Program Subsidy Reestimates	**$ 210,100**	**$ (192,540)**

The Disaster program had net upward reestimates of $208.4 million primarily in the 2006 cohort that mostly consists of loans for the Gulf Coast hurricanes in 2005. Those loans currently account for about 60 percent of the outstanding portfolio of direct Disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2008 that resulted in an increase in projected defaults.

Note 7. General Property and Equipment, Net

Equipment with a cost of $50,000 or more per unit and a useful life of 2 years or more is capitalized at full cost and depreciated using the straight-line method over the useful life. Other equipment items not meeting the capitalization criteria are expensed when purchased.

Leasehold improvements with modifications of $50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Other leasehold improvement expenditures not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed or purchased, is capitalized at cost if the initial unit acquisition cost is $250,000 or more and service life is at least 2 years. Costs that do not meet the capitalization criteria are expensed when incurred.

Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the system is put into operation. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities.

Assets meeting the capitalization thresholds established, at September 30, 2008 and 2007 are detailed below.

(Dollars in Thousands)	2008	2007
Equipment	$ 1,787	$ 118
Accumulated Depreciation	(357)	(12)
Net	1,430	106
Leasehold Improvements	1,496	
Net	1,496	
Software in Development	1,491	634
Software in Use	28,994	28,994
Amortization of Software in Use	(28,994)	(28,230)
Net	1,491	1,398
Total General Property and Equipment, Net	**$ 4,417**	**$ 1,504**

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. These unfunded liabilities as of September 30, 2008 and 2007 consisted of:

(Dollars in Thousands)	2008	2007
Intragovernmental Liabilities - Other		
Employment Taxes Payable	$ 4,117	$ 6,507
Federal Employee Compensation Act Payable	6,005	5,718
Total Intragovernmental Liabilities - Other	**10,122**	**12,225**
Federal Employee Compensation Act Actuarial Liability	**27,061**	**26,321**
Surety Bond Guarantee Program Future Claims	**24,764**	**23,588**
Other Liabilities		
Prior Liens on Real Estate Payable	424	492
Accrued Unfunded Annual Leave	24,547	22,908
Total Other Liabilities	**24,971**	**23,400**
Total Liabilities Not Covered by Budgetary Resources	**$ 86,918**	**$ 85,534**

The liability for the Surety Bond Guarantee Program is an estimate of future claims in the SBG Program for guaranties outstanding at year-end.

Note 9. Debt

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations and to fund the payment of downward subsidy reestimates and other credit program disbursements (see

Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

Borrowings payable to the Federal Financing Bank are the result of its financing of the SBA Section 503 Debentures issued prior to 1988.

All debt is intragovernmental and covered by budgetary resources. Debt transactions for the periods ending September 30, 2008 and 2007 and resulting balances are:

Intragovernmental Debt

(Dollars in Thousands)

Department of Treasury		**2008**		**2007**
Beginning Balance	$	11,365,675	$	9,303,062
New Borrowing		865,663		4,291,445
Repayments		(2,768,456)		(2,228,832)
Ending Balance	**$**	**9,462,882**	**$**	**11,365,675**
Federal Financing Bank		**2008**		**2007**
Beginning Balance	$	17,513	$	27,320
Repayments		(6,943)		(9,521)
Change in Interest Payable		(225)		(286)
Ending Balance	**$**	**10,345**	**$**	**17,513**
Total Debt	**$**	**9,473,227**	**$**	**11,383,188**

Note 10. Net Assets of Liquidating Funds Due to Treasury

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. Subsequent to the issuance of its audited financial statements each year, the SBA returns to the Treasury the portion of this balance that is considered to be the unobligated balance for budgetary reporting at fiscal year-end.

(Dollars in Thousands)

AS OF SEPTEMBER 30,		**2008**		**2007**
Pollution Control Equipment Guaranty Fund	$	5,272	$	5,350
Disaster Loan Fund		24,419		33,438
Business Loan and Investment Fund		75,098		97,485
Total Due Treasury	**$**	**104,789**	**$**	**136,273**

Note 11. Other Liabilities

Other liabilities as of September 30th were:

(Dollars in Thousands)

	2008	2007
OTHER LIABILITIES - INTRAGOVERMENTAL		
Entity		
Current		
Employment Taxes Payable	$ 3,167	$ 2,400
Advances from Other Agencies	5,823	4,780
Total Current	**8,990**	**7,180**
Non-current		
Employment Taxes Payable	4,117	6,507
Federal Employee Compensation Act Payable	6,005	5,718
Payable to Federal Financing Bank	435	637
Total Non-current	**10,557**	**12,862**
Total Entity	**19,547**	**20,042**
Non-entity		
Current		
Payable to Treasury	7	12
Total Other Liabilities - Intragovernmental	**$ 19,554**	**$ 20,054**
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	$ 14,209	$ 11,710
Accrued Unfunded Annual Leave	24,547	22,908
Suspense Accounts	454	847
Total Current	**39,210**	**35,465**
Non-current		
Prior Liens on Real Estate Payable	424	492
Total Non-current	**424**	**492**
Total Entity	**39,634**	**35,957**
Non-entity		
Current		
Non-entity Current Payable	4	4
Total Other Liabilities - Public	**$ 39,638**	**$ 35,961**

Note 12. Leases

The SBA leases all facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2008 and 2007 facilities lease costs were $41.5 million and $45.7 million. Future lease payments below assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA, as well as continued costs during the next 5 years as leases expire and new leases are added. Payments after five years reflect only current leases that will still be in effect then, projected to the end of each lease term.

Future Facilities Operating Lease Payments

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,		Lease Pmts
2009	$	44,458
2010		45,792
2011		47,165
2012		48,580
2013		50,038
After 2013		62,988
Total	**$**	**299,021**

Note 13. Non-entity Reporting

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset held by the SBA is Fund Balance with Treasury held in the Treasury general fund accounts specifically established for SBA's downward subsidy reestimates for its discretionary loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury with the exception of one deposit fund. Also at year-end, the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates, in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guarantee liability, and an account payable to the non-entity fund. In the loan program funds the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds; since both are included in SBA's reporting entity. The Downward Reestimate Payable to Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

	2008	2007
Entity		
Financing Fund Payable	$ (466,887)	$ (645,826)
Non-entity		
Miscellaneous Receipts Fund Receivable	466,887	645,826
Downward Reestimate Payable to Treasury	(466,887)	(645,826)
Balance Sheet Reported Payable	**$ (466,887)**	**$ (645,826)**

Note 14. Consolidated Statement of Net Cost

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenues arise from exchange transactions, and are deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenues when reimbursements are payable from other federal agencies and the public, as a result of costs incurred or services performed. A major source of earned revenue include: interest earned on SBA's outstanding Business and Disaster loan portfolios and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA changed the FY 2008 strategic plan to reorder the strategic goals: Goal 1 became Goal 3, Goal 2 became Goal 1, and Goal 3 became Goal 2. Additionally, four contracting assistance programs were moved from the FY 2008 strategic Goal 3 Improve Economic Environment to the strategic Goal 1 Expand America's Ownership Society. The Consolidated Statement of Net Cost has been updated accordingly in FY 2008 to reorder the goals and reflect the movement of the contracting assistance programs in the FY 2007 comparative year.

The SBA reports costs consistent with its strategic goals. The costs of Goal 4 "ensure that all SBA strategic goals operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services" are fully allocated to the other three strategic goals. Goal 4 costs are estimated at $117.8 million and $136.0 million for FY 2008 and FY 2007. Costs Not Assigned to Strategic Goals on the Statement of Net Cost includes costs of congressionally mandated grant programs and the Office of the Inspector General.

Intragovernmental Gross Cost is cost incurred by the SBA in exchange transactions with other federal agencies. Gross Cost with the Public is cost incurred by the SBA in exchange transactions. Intragovernmental Earned Revenue is revenue earned by the SBA in exchange transactions with other federal agencies. Earned Revenue from the Public is revenue earned by the SBA in exchange transactions.

The classification as Intragovernmental Costs or Gross Cost with the Public relate to source of the goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

Intragovernmental Costs and Exchange Revenue

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2008	2007
STRATEGIC GOAL 1:		
Expand America's Ownership Society, Particularly in Underserved Markets		
Intragovernmental Gross Cost	$ 161,121	$ 177,027
Gross Cost with the Public	834,610	357,245
Total Strategic Goal 1 Gross Cost	**995,731**	**534,272**
Intragovernmental Earned Revenue	79,491	113,964
Earned Revenue from the Public	69,831	78,091
Total Earned Revenue Strategic Goal 1	**149,322**	**192,055**
STRATEGIC GOAL 2:		
Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster		
Intragovernmental Gross Cost	522,532	603,843
Gross Cost with the Public	530,498	548,749
Total Strategic Goal 2 Gross Cost	**1,053,030**	**1,152,592**
Intragovernmental Earned Revenue	128,459	227,421
Earned Revenue from the Public	339,709	298,797
Total Earned Revenue Strategic Goal 2	**468,168**	**526,218**
STRATEGIC GOAL 3:		
Improve Economic Environment for Small Business		
Intragovernmental Gross Cost	3,294	6,032
Gross Cost with the Public	10,820	18,662
Total Strategic Goal 3 Gross Cost	**14,114**	**24,694**
Cost Not Assigned to Strategic Goals		
Intragovernmental Gross Cost	27,991	16,441
Gross Cost with the Public	91,940	50,864
Total Gross Cost Not Assigned to Strategic Goal	**119,931**	**67,305**
Net Cost of Operations	**$ 1,565,316**	**$ 1,060,590**

Note 15. Statement of Budgetary Resources

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources, as of September 30, 2008 and 2007. SBA's total budgetary resources were $3.0 billion and $2.9 billion for the years ended September 30, 2008 and 2007. Additionally, $6.1 billion and $9.1 billion of nonbudgetary resources including borrowing authority and collections of loan principal, interest and fees, in financing funds were reported for the years ended September 30, 2008 and 2007.

Adjustments to Beginning Balance of Budgetary Resources

The SBA made no adjustments to the beginning budgetary resources during the years ended September 30, 2008 and 2007.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs as determined by the reestimation process required by the Federal Credit Reform Act of 1990. The appropriations are received initially in the SBA Program Funds and then transferred to the Financing Funds where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991; Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of Public Debt when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2008 and 2007, the SBA received $1.3 billion and $3.0 billion of borrowing authority from the OMB. At the end of FY 2008, the SBA had no borrowing authority remaining. At the end of FY 2007, the SBA had $0.6 billion available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear for prior year cohorts and at the end of each fiscal year for the current year cohort. The SBA uses the loan principal, interest and fees collected from the public in its loan financing funds to repay its borrowings. The repayment maturity dates for the borrowing from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for Direct Business loans, 25 years for Guarantied Business loans and 30 years for Disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2008 and FY 2007, the SBA incurred $6.1 billion and $6.7 billion of direct and reimbursable obligations of which $0.6 billion and $0.5 billion was apportioned in Category A, $5.5 billion and $6.2 billion was apportioned in Category B. Category A apportionments are restricted by quarter and program, Category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2008 and 2007 are $3.0 billion and $5.3 billion which include $1.6 billion and $3.2 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year ($1.5 billion in FY 2008 and $4.7 billion in FY 2007) from program collections that are used primarily to repay the Treasury borrowings in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($1.4 billion in FY 2008 and $0.6 billion in FY 2007) that are used to finance SBA's ongoing program operations.

Undelivered Orders

Undelivered orders for the periods ended September 30, 2008 and 2007 were $0.8 billion and $1.5 billion.

Differences between the Statement of Budgetary Resources and the Budget of the U. S. Government

There was a $2.2 billion difference between the FY 2007 Statement of Budgetary Resources and the President's FY 2009 budget submission in the "Beginning Unobligated Balance" of the Disaster Financing Fund which was a reclassification by OMB of a portion of "Permanently not Available" related to unused Borrowing Authority. The OMB reported this reclassification in its data input using the MAX system for the President's FY 2009 budget submission. In accordance with an agreement with OMB, the SBA did not revise its reporting of FY 2007 budgetary results to the Treasury in the FACTS II system. The reclassification did not impact the ending balances for FY 2007 or the beginning balance of FY 2008.

The President's Budget with actual numbers for FY 2010 has not yet been published. OMB may make a similar adjustment to SBA's Business Guaranty Financing Fund to reclassify $.6 billion of cancelled borrowing authority during FY 2008 to the Beginning Unobligated Balance for the year that will create a difference between the President's Budget "actual" column and the SBA's FY 2008 reported results when the President's FY 2010 budget becomes available in February 2009.

Note 16. Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

Consolidated Reconciliation of Budgetary Obligations to Net Cost

For the years ended September 30, 2008 and 2007

(Dollars in Thousands)

	2008	2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 6,133,235	$ 6,683,743
Less: Spending Authority from Offsetting Collections and Recoveries	4,333,868	7,418,503
Obligations Net of Offsetting Collections and Recoveries	1,799,367	(734,760)
Less: Offsetting Receipts	742,578	773,829
Net Obligations	**1,056,789**	**(1,508,589)**
Other Resources		
Imputed Financing	24,014	21,091
Other Financing Sources	(567,900)	(730,777)
Net Other Resources Used to Finance Activities	**(543,886)**	**(709,686)**
Total Resources Used to Finance Activities	**512,903**	**(2,218,275)**
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	561,903	4,390,501
Resources that Fund Expenses Recognized in Prior Periods	(518,200)	(728,246)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	3,558,121	4,263,660
Offsetting Receipts	742,578	773,829
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(4,621,804)	(5,968,028)
Other - Current Year Liquidating Equity Activity	4,502	9,543
Other Resources that Do Not Affect Net Cost of Operations	(399)	6,038
Total Resources that Do Not Finance Net Cost of Operations	**(273,299)**	**2,747,297**
Total Resources Used to Finance the Net Cost of Operations	**239,604**	**529,022**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	1,639	171
Upward Reestimates of Credit Subsidy Expense	1,316,143	515,033
Change in Revenue Receivable from Public	1,869	5,089
Provision for Losses on Estimated Guaranties	1,176	1,540
Change in Unfunded Employee Benefits	740	4,636
Total Components Requiring or Generating Resources in Future Periods	**1,321,567**	**526,469**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	1,110	6,603
Change in Bad Debt Expense - Pre-1992 Loans	3,241	(1,215)
Other (Income) Expenses Not Requiring Budgetary Resources	(206)	(289)
Total Components Not Requiring or Generating Resources	**4,145**	**5,099**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**1,325,712**	**531,568**
Net Cost of Operations	**$ 1,565,316**	**$ 1,060,590**

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources but these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The table below details these differences:

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2008	2007
Current Year Liabilities Not Covered By Budgetary Resources	$ 86,918	$ 85,534
Less: Prior Year	85,534	80,450
Change in Liabilities Not Covered By Budgetary Resources	1,384	5,084
Upward Reestimates of Credit Subsidy Expense	1,316,143	515,033
Change in Revenue Receivable from Public	1,869	5,089
All Other	2,171	1,263
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$ 1,321,567**	**$ 526,469**

Note 17. Significant Events

Disaster Activity

In September 2008 Hurricanes Gustav and Ike struck the Gulf Coast in Louisiana and Texas. When disaster strikes in the United States, SBA's loans are the sole form of federal credit assistance for damage incurred by non-farm, private-sector homeowners and businesses. Although Gustav, Ike, and other disasters could possibly generate as much as $6.4 billion in disaster loan approvals, the SBA is reasonably certain that this demand will not overwhelm the Agency's Disaster operation in FY 2009. Hurricanes Katrina, Rita and Wilma did overwhelm SBA's Disaster operation in FY 2006. In response to this, the SBA revamped its disaster organization, business process and information system. As a result, the SBA expects that the demand for disaster loans in FY 2009 will be met within SBA's existing disaster response capacity.

The SBA received a $799 million emergency supplemental appropriation at the end of FY 2008 that will be available to fund the costs of loans made to the victims of hurricanes Gustav, Ike, and other disasters. This appropriation included funds for the administrative expenses of SBA's Disaster operation and for the subsidy costs of the Disaster loans. The SBA does not expect that the response to these disasters will adversely strain the Agency's financial resources in FY 2009.

Under the provisions of the Federal Credit Reform Act, the SBA reestimates the credit costs of its Disaster loan portfolio annually. As a result, the SBA is assured of having the financial resources to cover the cost to the Government of existing Disaster loans. The outstanding balance of Disaster loans made to victims of Hurricanes Katrina, Rita and Wilma currently account for about 60 percent of the total outstanding portfolio of Disaster loans. These loans are currently performing slightly better than previous Disaster loans and the SBA does not expect that the subsidy costs for these loans will exceed the historical average.

Economic Status

During FY 2008, the downturn in the nation's housing market continued to impact the overall economy and in August 2008 led to the creation of the Federal Housing Finance Agency (FHFA), a federal government agency of the U.S. Government, as the conservator for the Government Sponsored Enterprises Fannie Mae and Freddie Mac. The GSEs were placed into conservatorship on September 7, 2008. In the subsequent six weeks, the economic crisis grew to even more historic proportions and resulted in the failure of additional major financial institutions, the passage of a $700 billion federal rescue package and the unprecedented decision by the U.S. Treasury to make equity investments in many of the nation's banks.

As an organization with an $88 billion portfolio of direct loans and loan guaranties, these economic events will inevitably impact SBA's mission to provide capital to the nation's small businesses and disaster victims. Demand for SBA's business loan programs (measured in number of loans) was down almost 30 percent in FY 2008 from the previous year. Purchases of 7(a) defaulted guaranties were up 50 percent over projected purchases in FY 2008. Under the Federal Credit Reform Act, upward reestimates are automatically covered by permanent indefinite budget authority, which ensures the SBA will have sufficient resources to cover any losses incurred in its existing portfolio without further action by Congress. As described in Footnote 6I, SBA's loan and loan guaranty cost reestimates include all available data through the end of FY 2008 and incorporate macroeconomic indicators. However, the ultimate impact of the financial market crisis and the countervailing efforts by the U.S. and global governments remains unknown at this time.

Combining Statement of Budgetary Resources

For the year ended September 30, 2008

(Dollars in Thousands)

	BLIF		DLF		SBGRF	PCECGF
BUDGETARY RESOURCES	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**	**Budgetary**
Unobligated Balance						
Brought Forward October 1	$ 38,051	$ 2,816,564	$ 318,753	$ 1,861,816	$ 26,634	$ 3,213
Recoveries of Prior Year Obligations	1,246	4,790	77,458	471,848		
Budget Authority						
Appropriations Received	504,536		1,108,091		3,000	3,000
Borrowing Authority		30,206		1,316,599		
Spending Authority from Offsetting Collections						
Earned	25,244	2,005,789	6,546	1,552,331	7,326	220
Change in Unfilled Customer Orders		(3,557)		(94,912)		
Total Budget Authority	529,780	2,032,438	1,114,637	2,774,018	10,326	3,220
Permanently Not Available	(36,886)	(1,037,112)	(15,648)	(2,832,184)		(3,213)
Total Budgetary Resources	**$ 532,191**	**$ 3,816,680**	**$ 1,495,200**	**$ 2,275,498**	**$ 36,960**	**$ 3,220**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred, Net						
Direct	$ 366,921	$ 3,138,368	$ 176,075	$ 1,406,745	$	$
Reimbursable	135,812		101,814		6,589	
Total Obligations Incurred, Net	502,733	3,138,368	277,889	1,406,745	6,589	
Unobligated Balances, Available	9,280	512,691	78,579	639,735	3,938	3,350
Unobligated Balances, Not Available	20,178	165,621	1,138,732	229,018	26,433	(130)
Total Status of Budgetary Resources	**$ 532,191**	**$ 3,816,680**	**$ 1,495,200**	**$ 2,275,498**	**$ 36,960**	**$ 3,220**
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	$ 11,459	$ 45,314	$ 172,132	$ 1,044,833	$ 392	$
Uncollected Customer Payments from Federal Sources Brought Forward		(6,335)		(170,997)		
Total Obligated Balance Brought Forward, Net	11,459	38,979	172,132	873,836	392	
Obligations Incurred	502,733	3,138,368	277,889	1,406,745	6,589	
Gross Outlays	(505,659)	(3,090,033)	(295,452)	(1,507,424)	(6,359)	
Recoveries of Prior Year Unpaid Obligations	(1,246)	(4,790)	(77,458)	(471,848)		
Change in Uncollected Customer Payments from Federal Sources		3,557		94,912		
Obligated Balance, Net, End of Period						
Unpaid Obligations	7,287	88,859	77,111	472,306	622	
Uncollected Customer Payments from Federal Sources		(2,778)		(76,085)		
Total Obligated Balance, Net, End of Period	**$ 7,287**	**$ 86,081**	**$ 77,111**	**$ 396,221**	**$ 622**	**$ 0**
NET OUTLAYS						
Gross Outlays	$ 505,659	$ 3,090,033	$ 295,452	$ 1,507,424	$ 6,359	
Offsetting Collections	(25,244)	(2,005,789)	(6,546)	(1,552,331)	(7,326)	(220)
Net Outlays Before Offsetting Receipts	480,415	1,084,244	288,906	(44,907)	(967)	(220)
Offsetting Receipts		(577,775)		(164,563)		
Net Outlays	**$ 480,415**	**$ 506,469**	**$ 288,906**	**$ (209,470)**	**$ (967)**	**$ (220)**

Combining Statement of Budgetary Resources

For the year ended September 30, 2008

(Dollars in Thousands)

	SE Budgetary	OIG Budgetary	BATF Budgetary	TOTAL Budgetary	TOTAL Nonbudgetary Financing	Total
BUDGETARY RESOURCES						
Unobligated Balance						
Brought Forward October 1	$ 230,145	$ 5,685	$ 283	$ 622,764	$ 4,678,380	$ 5,301,144
Recoveries of Prior Year Obligations	23,026	143	2	101,875	476,638	578,513
Budget Authority						
Appropriations Received	423,574	18,000		2,060,201		2,060,201
Borrowing Authority					1,346,805	1,346,805
Spending Authority from Offsetting Collections						
Earned	358,892	1,116		399,344	3,558,120	3,957,464
Change in Unfilled Customer Orders	(103,614)	(26)		(103,640)	(98,469)	(202,109)
Total Budget Authority	678,852	19,090		2,355,905	4,806,456	7,162,361
Permanently Not Available	(6,693)	(228)		(62,668)	(3,869,296)	(3,931,964)
Total Budgetary Resources	**$ 925,330**	**$ 24,690**	**$ 285**	**$ 3,017,876**	**$ 6,092,178**	**$ 9,110,054**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred, Net						
Direct	$ 414,548	$ 16,436	$ 11	$ 973,991	$ 4,545,113	$ 5,519,104
Reimbursable	368,949	967		614,131		614,131
Total Obligations Incurred, Net	783,497	17,403	11	1,588,122	4,545,113	6,133,235
Unobligated Balances, Available	110,949	4,020	274	210,390	1,152,426	1,362,816
Unobligated Balances, Not Available	30,884	3,267		1,219,364	394,639	1,614,003
Total Status of Budgetary Resources	**$ 925,330**	**$ 24,690**	**$ 285**	**$ 3,017,876**	**$ 6,092,178**	**$ 9,110,054**
CHANGE IN OBLIGATED BALANCES						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	$ 315,019	$ 2,151	$ 27	$ 501,180	$ 1,090,147	$ 1,591,327
Uncollected Customer Payments from Federal Sources Brought Forward					(177,332)	(177,332)
Total Obligated Balance Brought Forward, Net	315,019	2,151	27	501,180	912,815	1,413,995
Obligations Incurred	783,497	17,403	11	1,588,122	4,545,113	6,133,235
Gross Outlays	(741,033)	(17,263)	(31)	(1,565,797)	(4,597,457)	(6,163,254)
Recoveries of Prior Year Unpaid Obligations	(23,026)	(143)	(2)	(101,875)	(476,638)	(578,513)
Change in Uncollected Customer Payments from Federal Sources					98,469	98,469
Obligated Balance, Net, End of Period						
Unpaid Obligations	334,457	2,148	5	421,630	561,165	982,795
Uncollected Customer Payments from Federal Sources					(78,863)	(78,863)
Total Obligated Balance, Net, End of Period	**$ 334,457**	**$ 2,148**	**$ 5**	**$ 421,630**	**$ 482,302**	**$ 903,932**
NET OUTLAYS						
Gross Outlays	$ 741,033	$ 17,263	$ 31	$ 1,565,797	$ 4,597,457	$ 6,163,254
Offsetting Collections	(255,278)	(1,089)		(295,703)	(3,558,120)	(3,853,823)
Net Outlays Before Offsetting Receipts	485,755	16,174	31	1,270,094	1,039,337	2,309,431
Offsetting Receipts	(240)			(240)	(742,338)	(742,578)
Net Outlays	**$ 485,515**	**$ 16,174**	**$ 31**	**$ 1,269,854**	**$ 296,999**	**$ 1,566,853**

Stewardship Investments in Human Capital for the five years ended September 30, 2008

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for Federal personnel.

Small Business Development Centers deliver management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.

SCORE is a nonprofit organization which provides small business counseling and training under a grant from the SBA. SCORE members are successful, retired business men and women who volunteer their time to assist aspiring entrepreneurs and small business owners. There are SCORE chapters in every state.

Women's Business Centers provide assistance to women business owners and acts as their advocate in the public and private sectors in a number of locations around the U.S.

All Other Training and Assistance Programs includes primarily Small Business Training provided by a counselor from a resource partner, district office, or SBA sponsor who delivers a structured program of knowledge, information or experience on a business-related subject. The training lasts for one or more hours and includes an agenda, attendee list, and a trainer evaluation. The session may be for an individual or a class. Training is also available online on a number of subjects of interest to the small business person. Other programs not separately detailed include Native American Outreach and Drug Free Work Place. As additional years of data accumulate, the investments will be presented separately.

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

	2008	2007	2006	2005	2004
Small Business Development Centers	$ 98,484	$ 99,748	$ 105,743	$ 104,075	$ 97,250
SCORE	10,960	12,267	15,285	18,669	17,993
Women's Business Centers	23,655	16,382	10,382	11,172	19,218
All Other Training and Assistance Programs	41,318	62,787	24,513	46,598	18,250
Total	**$ 174,417**	**$ 191,184**	**$ 155,923**	**$ 180,514**	**$ 152,711**