FINANCIAL STATEMENTS AND NOTES

This is the fifteenth year the U. S. Small Business Administration (SBA) has issued Agency-wide financial statements. The SBA prepares the 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 the 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 financial statements from its books and records in accordance with the accounting principles generally accepted in the United States Government 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 one exception: 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 in the Budget of the United States Government.

The **Consolidated Statement of Financing** shows the relationship between SBA's net obligations and net cost of operations by identifying and explaining the key differences between the two amounts. The SBA reports net obligations from budgetary accounting and net cost of operations from proprietary accounting. The statement shows total resources recognized during the reporting period and adjustments to these resources based upon whether they were used to finance net obligations or net cost.

The **Required Supplementary Stewardship Information** schedule provides information on the SBA's Investment in Human Capital.

CONSOLIDATED BALANCE SHEET

As of September 30, 2005 and 2004

(Dollars in Thousands)

	2005	2004
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	**$ 7,558,096**	$ 7,072,582
Total Intragovernmental Assets	**7,558,096**	7,072,582
Assets - Public		
Cash (Note 3)	**2,010**	22,510
Accounts Receivable (Note 5)	**54,933**	39,457
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	**4,276,972**	3,413,244
Internal Use Software (Note 7)	**14,001**	19,789
Total Assets - Public	**4,347,916**	3,495,000
Total Assets	**$ 11,906,012**	$ 10,567,582
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	**$ 7,696**	$ 10,297
Debt (Note 9)	**7,735,907**	8,603,974
Net Assets of Liquidating Funds Due to Treasury (Note 10)	**253,035**	299,516
Other (Note 11)	**964,879**	567,073
Total Intragovernmental Liabilities	**8,961,517**	9,480,860
Liabilities – Public		
Accounts Payable	**34,193**	33,894
Accrued Grant Liability	**51,260**	46,520
Liability for Loan Guaranties (Note 6)	**2,145,462**	2,524,052
Federal Employee Compensation Act Actuarial Liability (Note 8)	**28,967**	28,436
Other (Note 11)	**66,964**	56,095
Total Liabilities - Public	**2,326,846**	2,688,997
Total Liabilities	**$ 11,288,363**	$12,169,857
NET POSITION		
Unexpended Appropriations	**$ 1,110,131**	$ 540,894
Cumulative Results of Operations	**(492,482)**	(2,143,169)
Total Net Position	**$ 617,649**	$ (1,602,275)
Total Liabilities and Net Position	**$ 11,906,012**	$10,567,582

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2005 and 2004

(Dollars in Thousands)

	2005	2004
PROGRAMS		
Strategic Goal 1: Improve Economic Environment for Small Business		
Intragovernmental Gross Costs	**$ 7,659**	$ 11,633
Less: Intragovernmental Earned Revenue		
Intragovernmental Net Costs	**7,659**	11,633
Gross Costs with the Public	**29,089**	38,991
Less: Earned Revenue from the Public		
Net Costs with the Public	**29,089**	38,991
Net Cost of Strategic Goal 1	**$ 36,748**	$ 50,624
Strategic Goal 2: Increase Small Business Success by Bridging Competitive Opportunity Gaps		
Intragovernmental Gross Costs	**$ 219,245**	$ 292,582
Less: Intragovernmental Earned Revenue	**182,594**	136,746
Intragovernmental Net Costs	**36,651**	155,836
Gross Costs with the Public	**412,484**	1,483,911
Less: Earned Revenue from the Public	**211,992**	282,748
Net Costs with the Public	**200,492**	1,201,163
Net Cost of Strategic Goal 2	**$ 237,143**	$ 1,356,999
Strategic Goal 3: Restore Homes and Businesses Affected by Disaster		
Intragovernmental Gross Costs	**$ 467,160**	$ 399,300
Less: Intragovernmental Earned Revenue	**269,761**	166,096
Intragovernmental Net Costs	**197,399**	233,204
Gross Costs with the Public	**410,325**	268,676
Less: Earned Revenue from the Public	**145,541**	204,658
Net Costs with the Public	**264,784**	64,018
Net Cost of Strategic Goal 3	**$ 462,183**	$ 297,222
Costs Not Assigned to Strategic Goals		
Intragovernmental Gross Costs	**$ 14,952**	$ 9,810
Less: Intragovernmental Earned Revenue		
Intragovernmental Net Costs	**14,952**	9,810
Gross Costs with the Public	**56,783**	32,882
Less: Earned Revenue from the Public		
Net Costs with the Public	**56,783**	32,882
Net Costs Not Assigned to Strategic Goals	**$ 71,735**	$ 42,692
Net Cost of Operations	**$ 807,809**	$ 1,747,537

Note 12

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2005 and 2004

(Dollars in Thousands)

	2005		
	Cumulative Results of Operations	Unexpended Appropriations	Total
Beginning Net Position	**$ (2,143,169)**	**$ 540,894**	**$ (1,602,275)**
Budgetary Financing Sources			
Appropriations Received		**3,894,521**	**3,894,521**
Appropriations Transferred - In / (Out)			
Rescissions		**(8,275)**	**(8,275)**
Adjustment - Cancelled Authority		**(100,815)**	**(100,815)**
Other Adjustments		**(82,525)**	**(82,525)**
Appropriations Used	**3,133,669**	**(3,133,669)**	
Donations of Cash and Cash Equivalents	**29**		**29**
Other Financing Sources			
Transfers - In / (Out) Without Reimbursement	**(662,732)**		**(662,732)**
Imputed Financing from Costs Absorbed by Others	**15,880**		**15,880**
Other - Current Year Liquidating Equity Activity	**(28,350)**		**(28,350)**
Total Financing Sources	**$ 2,458,496**	**$ 569,237**	**$ 3,027,733**
Less: Net Cost of Operations	**807,809**		**807,809**
Ending Net Position	**$ (492,482)**	**$ 1,110,131**	**$ 617,649**

	2004		
	Cumulative Results of Operations	Unexpended Appropriations	Total
Beginning Net Position	$ (4,691,344)	$ 573,974	$ (4,117,370)
Budgetary Financing Sources			
Appropriations Received		4,430,112	4,430,112
Appropriations Transferred – In / (Out)		30,000	30,000
Rescissions		(8,040)	(8,040)
Adjustment – Cancelled Authority		(6,353)	(6,353)
Other Adjustments	(1,253)	(101,756)	(103,009)
Appropriations Used	4,377,043	(4,377,043)	
Donations of Cash and Cash Equivalents	426		426
Other Financing Sources			
Transfers – In / (Out) Without Reimbursement	(102,741)		(102,741)
Imputed Financing from Costs Absorbed by Others	17,858		17,858
Other – Current Year Liquidating Equity Activity	4,379		4,379
Total Financing Sources	$ 4,295,712	$ (33,080)	$ 4,262,632
Less: Net Cost of Operations	1,747,537		1,747,537
Ending Net Position	$ (2,143,169)	$ 540,894	$ (1,602,275)

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2005 and 2004

(Dollars in Thousands)

	For the year ended September 30, 2005		
	Budgetary	Non-Budgetary Financing	Total
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 3,894,521		$ 3,894,521
Borrowing Authority		$ 4,201,785	4,201,785
Net Transfers			
Unobligated Balance			
Brought Forward October 1	387,390	5,988,883	6,376,273
Spending Authority from Offsetting Collections			
Earned	414,808	4,527,711	4,942,519
Change in Unfilled Customer Orders	350,946	(29,711)	321,235
Recoveries of Prior Year Obligations	63,657	187,452	251,109
Permanently Not Available	(283,318)	(5,052,492)	(5,335,810)
Total Budgetary Resources	$ 4,828,004	$ 9,823,628	$ 14,651,632
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 3,853,667	$ 4,076,651	$ 7,930,318
Unobligated Balances, Available			
Apportioned, Currently Available	745,121	3,485,949	4,231,070
Unobligated Balances, Not Available	229,216	2,261,028	2,490,244
Total Status of Budgetary Resources	$ 4,828,004	$ 9,823,628	$ 14,651,632
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligated Balance, Beginning of Period	$ 413,216	$ 283,093	$ 696,309
Obligated Balance, End of Period			
Unfilled Customer Orders from Federal Sources		(77,022)	(77,022)
Undelivered Orders	307,726	487,900	795,626
Accounts Payable	86,656	31,522	118,178
Total Obligated Balance, End of Period	394,382	442,400	836,782
Outlays			
Disbursements	3,809,074	3,759,603	7,568,677
Collections	(765,987)	(4,527,711)	(5,293,698)
Subtotal	3,043,087	(768,108)	2,274,979
Less: Offsetting Receipts		539,753	539,753
Net Outlays	$ 3,043,087	$ (1,307,861)	$ 1,735,226

Note 13

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2005 and 2004

(Dollars in Thousands)

	For the year ended September 30, 2004		
	Budgetary	Non-Budgetary Financing	Total
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 4,430,112		$ 4,430,112
Borrowing Authority		$ 2,203,099	2,203,099
Net Transfers	30,000		30,000
Unobligated Balance			
Brought Forward October 1	415,697	1,769,202	2,184,899
Spending Authority from Offsetting Collections			
Earned	365,014	5,222,293	5,587,307
Change in Unfilled Customer Orders	(15,294)	(21,251)	(36,545)
Recoveries of Prior Year Obligations	42,994	108,998	151,992
Permanently Not Available	(241,346)	(284,147)	(525,493)
Total Budgetary Resources	$ 5,027,177	$ 8,998,194	$ 14,025,371
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 4,639,787	$ 3,009,311	$ 7,649,098
Unobligated Balances, Available			
Apportioned, Currently Available	185,675	2,457,091	2,642,766
Unobligated Balances, Not Available	201,715	3,531,792	3,733,507
Total Status of Budgetary Resources	$ 5,027,177	$ 8,998,194	$ 14,025,371
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obligated Balance, Beginning of Period	$ 473,939	$ 139,831	$ 613,770
Obligated Balance, End of Period			
Unfilled Customer Orders from Federal Sources	(233)	(106,732)	(106,965)
Undelivered Orders	336,242	366,232	702,474
Accounts Payable	77,207	23,593	100,800
Total Obligated Balance, End of Period	413,216	283,093	696,309
Outlays			
Disbursements	4,660,782	2,813,163	7,473,945
Collections	(352,982)	(5,257,156)	(5,610,138)
Subtotal	4,307,800	(2,443,993)	1,863,807
Less: Offsetting Receipts		230,309	230,309
Net Outlays	$ 4,307,800	$ (2,674,302)	$ 1,633,498

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCING
For the years ended September 30, 2005 and 2004

(Dollars in Thousands)

	2005	2004
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	**$ 7,930,318**	$ 7,649,098
Less: Spending Authority from Offsetting Collections and Recoveries	**5,514,863**	5,702,754
Obligations Net of Offsetting Collections and Recoveries	**2,415,455**	1,946,344
Less: Offsetting Receipts	**539,753**	230,309
Net Obligations	**$ 1,875,702**	$ 1,716,035
Other Resources		
Transfers In / (Out)	**$ (662,732)**	$ (102,741)
Imputed Financing	**15,880**	17,858
Other Financing Sources	**(28,350)**	4,379
Net Other Resources Used to Finance Activities	**$ (675,202)**	$ (80,504)
Total Resources Used to Finance Activities	**$ 1,200,500**	$ 1,635,531
Resources that Do Not Finance Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	**$ (121,313)**	$ (80,641)
Resources that Fund Expenses Recognized in Prior Periods	**(2,117,729)**	(3,500,716)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	**4,527,711**	5,221,793
Offsetting Receipts	**539,753**	230,309
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	**(3,715,881)**	(2,751,423)
Other – Current Year Liquidating Equity Activity	**28,350**	(4,379)
Other Resources that Do Not Affect Net Cost of Operations	**(3,120)**	1,749
Total Resources that Do Not Finance Net Cost of Operations	**$ (862,229)**	$ (883,308)
Total Resources Used to Finance the Net Cost of Operations	**$ 338,271**	$ 752,223
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	**$ (374)**	$ (568)
Change in Contingent Liability		(800)
Upward Reestimates of Credit Subsidy Expense	**456,215**	973,679
Change in Revenue Receivable from Public	**1,888**	1,618
Provision for Losses on Estimated Guarantees	**3,075**	1,736
Change in Unfunded Employee Benefits	**531**	(3,605)
Total Components Requiring or Generating Resources in Future Periods	**$ 461,335**	$ 972,060
Components Not Requiring or Generating Resources		
Depreciation or Amortization	**$ 6,380**	$ 3,074
Bad Debt Expense – Noncredit Reform	**1,863**	20,180
Other Expenses Not Requiring Budgetary Resources	**(40)**	
Total Components Not Requiring or Generating Resources	**$ 8,203**	$ 23,254
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$ 469,538**	$ 995,314
Net Cost of Operations	**$ 807,809**	$ 1,747,537

Note 14

The accompanying notes are an integral part of the financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. Its 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. The budget consists of one year, multi year and no year appropriations, which fund salaries, expenses and program activities.

Basis of Accounting and Presentation

The SBA prepares financial statements to report the 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 for federal agencies and the formats prescribed by the Office of Management and Budget (OMB). 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 liquidate its liabilities without the enactment of an appropriation by 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 in Circular A-11, *Preparation, Submission and Execution of the Budget*. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when liabilities are 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 material. The most significant differences in actual results and SBA's estimates come from the valuation of credit program receivables under Federal Credit Reform Act of 1990 (FCRA) guidelines. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses continual review of model factors, statistical modeling and annual reestimates to mitigate the effect of the variability of credit program results on its estimates.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by an appropriation for the long-term loan subsidy cost and borrowings from the U. S. Department of the Treasury (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 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[1] 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 FCRA, the SBA uses "program accounts" to account for appropriations in its credit programs and "financing accounts" to account for credit program cash flow. Estimates and upward 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 and default recoveries.

Fund Balances with the Treasury and Cash

SBA's cash receipts are deposited to accounts at the Treasury. SBA's fund balances with the Treasury are available to make expenditures and pay liabilities. Separate records are maintained for SBA's program, financing, liquidating and other accounts. Fund balances at Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations. Cash consists of cash in transit and undeposited collections that are held by SBA field offices and lockbox banks at the reporting date.

Accounts Receivable

Accounts receivable consists of amounts owed to the SBA by the public. The SBA has determined that uncollectible or unrecoverable accounts receivable are not significant and therefore does not establish an allowance for these amounts.

Credit Program Receivables and Liabilities for Loan Guaranties

The FCRA governs direct loans made after FY 1991. FCRA loans are valued at the present value of expected future cash inflows and outflows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance account adjusts the unpaid principal balance of the direct loan portfolio to the calculated present value of future cash flows.

The FCRA also governs loan guaranties made after FY 1991. An allowance for the cost of outstanding guaranties is determined and recorded as a liability on SBA's balance sheet. The liability is determined by calculating the present value of expected future cash inflows and outflows for outstanding guaranties

1. The words "guaranties", "guarantied" and "guaranty" are used throughout the financials in referring to SBA's formal assurance to the holder that the obligation of another party will be honored by the SBA if need be as part of its credit programs. These words have the same meaning as "guarantees", "guaranteed", and "guarantee" as may be used in the rest of the PAR.

in a manner similar to that used 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. A "realignment entry" is made as part of SBA's closing procedures to adjust the purchased loan subsidy allowance and the allowance for guaranties to recognize the purchased guaranties.

Direct loans made prior to the FCRA are recorded at the unpaid principal balance 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 the 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.

Foreclosed property acquired as a result of defaulted loans or guaranties is valued at net realizable value, if original loans were obligated prior to the FCRA, or at the present value of expected future cash flows, if obligated under the FCRA.

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 a statistical analysis of grant expenditures. The Small Business Development Program grants and several other grant programs are subjected to this treatment.

Net Assets of Liquidating Funds Due to the Treasury

Net Assets of Liquidating Funds Due to the Treasury is the residual of the book value of assets less liabilities of the Liquidating Funds. The SBA returns to the Treasury each year the portion of this yearend balance that is considered to be the unobligated balance for budgetary reporting. The SBA obtains permission from OMB to transfer this balance early in the following fiscal year once final figures become available.

Equipment and Internal Use Software

Equipment is capitalized at full cost when the initial unit acquisition cost is $50,000 or more and service life is at least two years; otherwise, it is expensed when purchased. Currently the SBA has no equipment meeting the capitalization threshold.

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 two 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 five 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.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits and claims. 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 reasonably possible, and is estimated at $1.0 million. A contingent liability was not required at September 30, 2005 as the likelihood of loss was not 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. Conversely, assets purchased and capitalized on the Balance Sheet have a funding source, but do not appear as expenses in the Statement of Net Costs, therefore decreasing the loss reported as the Cumulative Results of Operations. The largest category of unfunded expense at the SBA is year-end reestimates which are funded in the following year. The majority of the Cumulative Results of Operations reported is due to these unfunded reestimates.

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. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance Benefits

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

SBA employees participate in either the Civil Service Retirement System or the Federal Employees' Retirement System (FERS) 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. The Office of Personnel Management (OPM) administers SBA's retirement funds. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act, accounted for 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. The cost is funded through Agency contributions, employee wages to the extent it is withheld from employee pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the OPM 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 during the accounting period, net of the amounts contributed by employees and the Agency. The SBA recognizes the imputed costs as current operating expenses, offset by an imputed financing source. Eligible retired federal employees can continue to participate in health and life insurance plans. The cost not contributed by retired federal employees is calculated by the OPM as imputed costs and recognized by the SBA as current operating expenses, offset by an imputed financing source.

Federal Employees Compensation Act

The Federal Employees Compensation Act (FECA) 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 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.

Reclassifications

Accrued Grant Liability on the Balance Sheet was included in "Other Liabilities-Public" in FY 2004. It was reclassified to a separate line for comparable presentation with the FY 2005 data.

FY 2004 transaction categories which effect the Subsidy Cost Allowance and the Liability for Loan Guaranties balances presented in Notes 6H and 6N, respectively, were reclassified to match the categories used in FY 2005. Additionally, reestimates presented in FY 2004 Note 6Q were modified to include current year interest on prior year reestimates to match the FY 2005 presentation.

On the Statement of Financing effective with FY 2005, the SBA has elected to report unfunded current year reestimate expenses on the line entitled "Upward Reestimates of Credit Subsidy Expense" and the funding of the prior year unfunded expense on the line entitled "Resources that Fund Expenses Recognized in Prior Periods" instead of netting the effect on the reestimates line. These transactions have been reclassified in the FY 2004 column in a similar manner to allow comparability. Additionally, the line entitled "Other – Current Year Liquidating Equity Activity," reported in FY 2004 as a "Component of Net Cost Generating Resources in Future Periods," has been reclassified as one of the "Resources that Do Not Finance Net Cost of Operations" to match the FY 2005 presentation.

NOTE 2. FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on the SBA's behalf to pay current liabilities and finance loan programs costs.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2005	2004
Entity Fund Balance		
Appropriated Funds	$ 1,188,806	$ 602,233
Financing Funds	6,189,379	6,271,977
Liquidating Funds	154,993	174,936
Revolving Fund	24,580	22,948
Trust Fund	338	488
Total Fund Balance with Treasury	**$ 7,558,096**	**$ 7,072,582**
Status of Fund Balance with Treasury		
Unobligated Balance Available	$ 4,231,070	$ 2,642,766
Unobligated Balance Unavailable	2,490,244	3,733,507
Obligated Balance Not Yet Disbursed	836,782	696,309
Total Fund Balance with Treasury	**$ 7,558,096**	**$ 7,072,582**

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated balances not yet disbursed include undelivered orders, reimbursements, other income earned and expended authority-unpaid. See Note 13 for further discussion of unobligated balances.

NOTE 3. CASH

The SBA and its fiscal agents hold collections from borrowers in Treasury General Accounts at commercial banks until transferred to the Treasury. Cash in transit and undeposited collection amounts are unrestricted and total $ 2.0 million and $ 22.5 million at September 30, 2005 and 2004. The decrease from FY 2004 to FY 2005 occurred because in FY 2005, guaranty fees due from our fiscal agent were treated as an account receivable.

NOTE 4. MASTER RESERVE FUND

When Congress enacted the Small Business Secondary Market Improvement Act of 1984, it authorized the SBA to guaranty 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 (SMG) program. The program encompassed $14.9 billion and $ 14.1 billion of outstanding trust certificate principal at September 30, 2005 and 2004, respectively. The SMG program's 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 (MRF) 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 MRF balance is invested entirely in Treasury securities and repurchase agreements backed by Treasury securities.

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 partially 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 has been included under the requirements of the Federal Credit Reform Act of 1990 beginning with the FY 2005 budget. Also, the cost of the SMG for previous years' pools of 7(a) secondary market sales has been reestimated and included in SBA's financial statements beginning with FY 2003. 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.

The MRF balance is invested entirely in Treasury securities and repurchase agreements backed by Treasury securities. MRF investments are managed by the 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 guidance, 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 for these time periods are included in the following table:

(Dollars in Thousands)

MASTER RESERVE FUND ASSETS AS OF SEPTEMBER 30,	2005	2004
Short Term Securities		
Treasury Bills	$ 154,596	$ 155,312
Repurchase Agreements	379,190	287,511
Total Short Term Securities	533,786	442,823
Long Term Securities		
Money Market Funds	38,394	27,577
Treasury Bonds	60,637	184,961
Treasury Notes	987,183	757,109
Net Interest	12,664	13,219
Total Long Term Securities	1,098,878	982,866
Net Assets	**$ 1,632,664**	**$ 1,425,689**

RECONCILIATION OF MRF ASSETS FOR THE YEARS ENDED SEPTEMBER 30,	2005	2004
Beginning Net Assets	$ 1,425,689	$ 1,259,790
Receipts		
Loan Payments from Borrowers	1,467,508	1,296,744
Prepayments and Default Payments	2,385,684	1,811,735
Earned Income	62,630	55,064
Net Realized Gain (Loss)	(23,125)	309
Total Receipts	3,892,697	3,163,852
Disbursements		
Payments to Investors	3,683,450	2,996,095
Expenses	2,272	1,858
Total Disbursements	3,685,722	2,997,953
Ending Net Assets	**$ 1,632,664**	**$ 1,425,689**

NOTE 5. ACCOUNTS RECEIVABLE

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2005	2004
Public		
Guaranty Fees Receivable	$ 39,606	$ 31,080
Refunds	3,146	3,621
Other	12,181	4,756
Total Public	**$ 54,933**	**$ 39,457**

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

SBA's business loan programs include its flagship 7(a) Loan Guaranty Program where 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 provides guaranties of 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 provide guaranties of 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 five categories: (1) loans for homes and personal property, (2) physical disaster loans to businesses of any size, (3) pre-mitigation disaster loans to businesses, (4) economic injury loans to small businesses without credit available elsewhere and (5) 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 applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

Subsidy Funding under Federal Credit Reform

The Federal Credit Reform Act of 1990 requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year a loan is disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of the direct or guarantied loan. The SBA receives appropriations annually to fund its credit programs based on the subsidy rate applied to the credit program level approved by the Congress. As loans or guaranties are made, the subsidy rate is applied to loan disbursements to determine the subsidy cost and establish a "subsidy allowance," or a liability for loan guaranties. Per the FCRA, subsidy costs are reestimated annually.

Valuation Methodology for Post-1991 Direct Loans and Loan Guaranties

The Federal Credit Reform Act of 1990 requires that guarantied and direct loans committed after FY 1991 be valued based on the net present value of their expected lifetime 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 guarantied 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 Treasury interest rates provided by the OMB.

Historical data used as the basis for program performance assumptions are drawn primarily from data systems maintained by the SBA and its contractors. Data undergo 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 Federal Credit Reform Act of 1990 requires that guarantied and direct loans committed prior to FY 1992 be reported in liquidating funds. 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 that are recorded as a liability on the Balance Sheet. The liability for guaranties is an estimate of the liability associated with these guaranties. Liability for guarantied loans is estimated based on historical experience.

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 liquidating loans.

Foreclosed Property

Foreclosed property is comprised of real and business-related property acquired through foreclosure on loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are valued at the present value of expected future cash flows for financial statement presentation. 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 nearly all liquidation responsibilities. At September 30, 2005 SBA's foreclosed property was $ 12.8 million related to 61 loans. The properties had been held for an average of 795 days. At September 30, 2004, foreclosed property was $ 13.4 million related to 58 loans. The properties had been held for an average of 723 days.

B. Summary Table of Credit Program Receivables

The following table summarizes the components of the balance sheet line "Credit Program Receivables and Related Foreclosed Property, Net." Tables 6C, 6D, 6I and 6J provide further detail.

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2005	2004
Pre-1992 Direct Loans	$ 59,636	$ 73,038
Post-1991 Direct Loans	3,039,614	2,535,507
Pre-1992 Defaulted Guarantied Loans	112,296	153,037
Post-1991 Defaulted Guarantied Loans	1,065,426	651,662
Total Credit Program Receivables & Related Property, Net	**$ 4,276,972**	**$ 3,413,244**

C. Pre-1992 Direct Loans

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2005	BUSINESS	DISASTER	TOTAL
Loans Receivable, Gross	$ 35,716	$ 31,443	$ 67,159
Interest Receivable	4,499	294	4,793
Allowance for Loan Losses	(11,949)	(3,921)	(15,870)
Foreclosed Property	3,554		3,554
Total Pre-1992 Direct Loans	**$ 31,820**	**$ 27,816**	**$ 59,636**

D. Post–1991 Direct Loans

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2005	BUSINESS	DISASTER	TOTAL
Loans Receivable, Gross	$ 133,095	$ 3,598,812	$ 3,731,907
Interest Receivable	1,475	19,407	20,882
Allowance for Subsidy Cost - Present Value Method	(24,075)	(689,963)	(714,038)
Foreclosed Property		863	863
Total Post–1991 Direct Loans	**$ 110,495**	**$ 2,929,119**	**$ 3,039,614**

E. Direct Loans

(Dollars in Thousands)

NEW LOANS DISBURSED DURING YEARS ENDED SEPTEMBER 30,	2005	2004
Business Direct Loan Programs	$ 18,514	$ 20,595
Disaster Loan Program	998,146	465,152
Total Direct Loans Disbursed	**$ 1,016,660**	**$ 485,747**

OUTSTANDING LOAN COMMITMENTS AS OF SEPTEMBER 30,	2005	2004
Business Direct Loan Programs	$ 25,786	$ 31,798
Disaster Loan Program	462,114	334,434
Total Outstanding Loan Commitments	**$ 487,900**	**$ 366,232**

F. Subsidy Expense for Direct Loans by Component

(Dollars in Thousands)

DURING THE YEARS ENDED SEPTEMBER 30,	2005	2004
Business Direct Loans		
Interest	$ 1,918	$ 2,233
Default	41	55
Fees	0	0
Other	0	0
Total Subsidy Expense before Reestimates	1,959	2,288
Reestimates – Principal	(18,512)	27,935
Reestimates – Interest	(867)	–
Total Business Direct Loan Subsidy Expense	**$ (17,420)**	**$ 30,223**
Disaster Direct Loans		
Interest	$ 80,718	$ 19,457
Default	73,789	39,169
Fees	(71)	(283)
Other	(26,857)	(504)
Total Subsidy Expense before Reestimates	127,579	57,839
Reestimates – Principal	34,701	35,482
Reestimates – Interest	9,566	19,992
Total Disaster Direct Loan Subsidy Expense	**$ 171,846**	**$ 113,313**

The subsidy rates disclosed in table "G" below pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense in table "F" above for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes reestimates.

G. Subsidy Rates for Direct Loans by Program and Component

2005 SUBSIDY RATES

	MICROLOAN	DISASTER	DISASTER-WTC
Interest	10.03 %	8.92 %	10.64 %
Default Component	0.22	7.13	11.90
Other		(3.19)	0.66
Total Subsidy Rates	**10.25 %**	**12.86 %**	**23.20 %**

H. Schedule to Reconcile Subsidy Cost Allowance Balance

(Dollars in Thousands)

FOR THE YEAR ENDED SEPTEMBER 30,	2005	2004
Post-1991 Business Direct Loans		
Beginning Balance of Allowance Account	$ 2,889,690	$ 1,806,462
Add Current Years' Subsidy (See Note 6F for breakdown by component)	1,959	2,288
Loans Written Off	(415,189)	(425,688)
Subsidy Amortization	(2,226)	571
Allowance Related to Purchased Guarantied Loans	693,675	1,437,296
Miscellaneous Recoveries and Costs	28,355	40,826
Balance of Subsidy Cost Allowance Account before Reestimates	3,196,264	2,861,755
Technical Assumptions/Default Reestimates – Principal Portion	(18,512)	27,935
Ending Balance of the Subsidy Cost Allowance	**$ 3,177,752**	**$ 2,889,690**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	$ 613,279	$ 630,907
Add Current Years' Subsidy (See Note 6E for breakdown by component)	127,579	57,839
Loans Written Off	(79,585)	(68,939)
Subsidy Amortization	(20,523)	52,647
Miscellaneous Recoveries and Costs	14,512	(94,657)
Balance of Subsidy Cost Allowance Account before Reestimates	655,262	577,797
Technical Assumptions/Default Reestimates – Principal Portion	34,701	35,482
Ending Balance of the Subsidy Cost Allowance	**$ 689,963**	**$ 613,279**

I. Defaulted Guarantied Loans (Guarantied Prior to FY 1992)

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2005	TOTAL
Loans Receivable, Gross	$ 168,725
Interest Receivable	4,639
Allowance for Loan Losses	(65,173)
Foreclosed Property	4,105
Total Defaulted Guarantied Loans (Guarantied Prior to FY 1992)	**$ 112,296**

J. Defaulted Guarantied Loans (Guarantied After FY 1991)

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2005	TOTAL
Loans Receivable, Gross	$ 3,604,145
Advances	599,549
Interest Receivable	11,750
Allowance for Subsidy Cost - Present Value Method	(3,153,677)
Foreclosed Property	3,659
Total Defaulted Guarantied Loans (Guarantied After FY 1991)	**$ 1,065,426**

K. Guarantied Loans

(Dollars in Thousands)

	2005	2004
Guarantied Loans Outstanding as of September 30,		
Total Outstanding Principal at Face Value	$ 73,260,764	$ 67,499,270
Outstanding Principal Guarantied by SBA	$ 61,060,226	$ 56,447,407
New Loans Disbursed During Years Ended September 30,		
Total Outstanding Principal at Face Value	$ 18,935,912	$ 15,267,177
Outstanding Principal Guarantied by SBA	$ 14,666,599	$ 12,128,578
Outstanding Loan Commitments as of September 30,		
Business Loan Programs	$ 14,275,869	$ 15,071,688

L. Liability for Loan Guaranties

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2005	2004
Liability for Pre-1992 Loans	$ 2,798	$ 6,324
Liability for Post-1991 Loans	2,142,664	2,517,728
Total Liability for Loan Guaranties	**$ 2,145,462**	**$ 2,524,052**

M. Subsidy Expense for Post-1991 Loan Guaranties

(Dollars in Thousands)

FOR THE YEARS ENDED SEPTEMBER 30,	2005	2004
Business Loan Guaranty Program		
Default	$ 142,345	$ 420,817
Fees	(103,457)	(309,146)
Other	(3,755)	(5,077)
Total Subsidy Expense before Reestimates	$ 35,133	$ 106,594
Reestimates – Principal	(250,984)	607,492
Reestimates – Interest	(123,309)	137,055
Total Business Loan Subsidy Expense	**$ (339,160)**	**$ 851,141**

The subsidy rates disclosed in table "N" below pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense in table "M" above for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes reestimates.

N. Subsidy Rates for Loan Guaranties by Program and Component

2005 SUBSIDY RATES	DEFAULT	OTHER	FEE	TOTAL
7A	3.53 %	%	(3.53) %	0.00 %
7A STAR	3.46		(2.40)	1.06
7A DELTA	4.09	(2.53)		1.56
504 CDC	3.66	0.39	(4.05)	0.00
SBIC Debenture	9.70	(6.60)	(3.10)	0.00
SBIC New Markets	16.03			16.03
SMG				0.00

O. Schedule to Reconcile Loan Guaranty Liability Balance

(Dollars in Thousands)

FOR THE YEARS ENDED SEPTEMBER 30,	2005	2004
Post -1991 Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	$ 2,517,728	$ 2,536,065
Add Current Years' Subsidy (See Note 6M for component breakdown)	35,133	106,594
Fees	584,585	524,085
Adjustment Related to Purchased Guarantied Loans	553,006	(105,662)
Interest Accumulation Factor	(50,123)	180,788
Claim Payments to Lenders	(1,246,681)	(1,331,634)
Balance of Liability for Loan Guaranties before Reestimates	2,393,648	1,910,236
Technical Assumptions/Default Reestimates – Principal Portion	(250,984)	607,492
Ending Balance of Liability for Loan Guaranties	$ 2,142,664	$ 2,517,728
Pre-1992 Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	$ 6,324	$ 5,465
Adjustment to Expected Losses, Guaranties Outstanding	(3,526)	859
Ending Balance of Liability for Loan Guaranties	2,798	6,324
Total Ending Balance of Liability for Loan Guaranties	**$ 2,145,462**	**$ 2,524,052**

P. Administrative Expense

The SBA receives appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties as follows:

(Dollars in Thousands)

FOR THE YEARS ENDED SEPTEMBER 30,	2005	2004
Direct Loan Programs		
Business Direct Loans	$ 24,995	$ 26,073
Disaster Direct Loans	189,922	124,425
Total Direct Loan Programs	214,917	150,498
Business Guaranty Loan Programs	99,979	104,291
Total Administrative Expenses	**$ 314,896**	**$ 254,789**

Q. 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 new information about historical program performance, revised expectations for future economic conditions, and improvements in cash flow projection methods. Financial statement reestimates are performed using nine months of actual and three months of projected performance data for FY 2005, with one exception: purchases for the SBIC Debenture and Participating Securities programs are actual purchases for the fiscal year.

Business Guarantied Loan Programs

Subsidy reestimates for business guaranteed loan programs follow:

(Dollars in Thousands)

GUARANTIED LOAN PROGRAM SUBSIDY REESTIMATES	2005	2004
7(a) Loan Guaranty	$ 177,752	$ 57,525
7(a) Star	22,173	(1,660)
504 CDC Debentures	(189,640)	(99,018)
SBIC Debentures	(55,229)	54,602
SBIC Participating Securities	(300,626)	730,649
Secondary Market Guaranty Program	(5,360)	2,449
All Other Guaranty Loan Programs	(23,363)	
Total Guarantied Loan Program Subsidy Reestimates	**$ (374,293)**	**$ 744,547**

The SBIC Participating Securities Program had the largest reestimates in FY 2005 with a net $ 300.6 million downward reestimate. The SBA purchased fewer outstanding guarantied securities and recovered more on already purchased securities than had been previously projected for this program. This improved performance is consistent with an easing of the downturn in the venture capital industry that began with the Internet bubble collapse five years ago. The overall impact of improved performance on the program's reestimates was partially offset by upward reestimates required for more recent cohorts.

The 504 Certified Development Company program had the second largest reestimates in FY 2005, with a net downward reestimate of $ 189.6 million. The downward reestimate was due to better than previously projected program performance and modeling enhancements that more accurately forecast state unemployment rates based on the relationship those rates have to forecasted national unemployment rates.

The reestimates performed for the FY 2005 financial statements, for the 7(a) Loan Guaranty Program, SBA's flagship and largest program, were the smallest in the program's history. The modest reestimates reflect the stability of the ongoing loan performance as well as the consistency of the credit subsidy model, which the SBA redeveloped three years ago and has modified only minimally since that time. The amount includes the reestimates in the FY 2006 President's Budget that reflected an adjustment to the recovery curve.

The Secondary Market Guaranty program had a small downward reestimate, reflecting the actual cash activity in the MRF during this reestimate period.

Business Direct Loan Programs

Subsidy reestimates for business direct loan programs follow:

(Dollars in Thousands)

BUSINESS DIRECT LOAN PROGRAM SUBSIDY REESTIMATES	2005	2004
7(m) Microloan	$ (35,429)	$
SBIC Preferred Stock	16,554	
All Other Direct Loan Programs	(504)	27,935
Total Direct Loan Program Subsidy Reestimates	**$ (19,379)**	**$ 27,935**

While the SBA completes reestimates for its major loan programs each year, in the past the smaller loan programs have been reestimated only intermittently. This year all of the small loan programs were reestimated using the Balances Approach Reestimate Calculator for the first time. The balances method captures changes in loan performance as well as adjusting for any non-borrower accounting anomalies that have occurred since the inception of the program. The most significant reestimate for the Direct Business Loan Programs is a $ 35.4 million net downward reestimate for the 7(m) Microloan Program. This net amount includes $ 42.6 million of downward reestimates of which approximately $ 31 million is the result of an accounting inconsistency and not due to borrower performance.

Disaster Direct Loan Programs

Subsidy reestimates for disaster direct loan programs follow:

(Dollars in Thousands)

DISASTER DIRECT LOAN PROGRAM SUBSIDY REESTIMATES	2005	2004
Disaster	$ 19,682	$ 74,770
World Trade Center Disaster	24,585	(19,296)
Total Disaster Direct Loan Program Subsidy Reestimates	**$ 44,267**	**$ 55,474**

The disaster program had relatively minor net reestimates, reflecting the relative stability and consistency of the program and model.

NOTE 7. EQUIPMENT AND INTERNAL USE SOFTWARE

Assets meeting the established capitalization thresholds (see Note 1), at September 30, 2005 and 2004, are detailed here:

(Dollars in Thousands)

	2005	2004
Cost of Internal Use Software in Development	$	$ 18,829
Cost of Software in Use	28,994	9,573
Amortization of Software in Use	(14,993)	(8,613)
Total Equipment and Internal Use Software	**$ 14,001**	**$ 19,789**

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 at September 30, 2005 and 2004 consisted of:

(Dollars in Thousands)

	2005	2004
Intragovernmental Liabilities – Other		
Federal Employee Compensation Act Payable	$ 5,283	$ 5,488
Total Intragovernmental Liabilities – Other	$ 5,283	$ 5,488
Federal Employee Compensation Act Actuarial Liability	$ 28,967	$ 28,436
Other Liabilities		
Prior Liens on Real Estate Payable	89	186
Accrued Unfunded Annual Leave	20,952	21,326
Surety Bond Guarantee Program Future Claims	23,107	20,032
Total Other Liabilities	44,148	41,544
Total Liabilities Not Covered by Budgetary Resources	**$ 78,398**	**$ 75,468**

The liability for Surety Bond Guarantees 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 disbursement requirements. 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 (FFB) are the result of its financing of the SBA Section 503 Debentures issued prior to 1988. The SBA, as the servicing agent, collects loan principal and interest and repays the FFB debt.

All debt is intragovernmental and covered by budgetary resources. Debt transactions for the periods ending September 30, 2005 and 2004 and resulting balances are:

(Dollars in Thousands)

DEPARTMENT OF TREASURY	2005	2004
Beginning Balance	$ 8,545,701	$ 6,626,749
New Borrowing	4,201,785	2,203,099
Repayments	(5,052,488)	(284,147)
Ending Balance	$ 7,694,998	$ 8,545,701

FEDERAL FINANCING BANK	2005	2004
Beginning Balance	$ 58,273	$ 79,630
Repayments	(16,870)	(20,740)
Change in Interest Payable	(494)	(617)
Ending Balance	$ 40,909	$ 58,273
Total Debt	**$ 7,735,907**	**$ 8,603,974**

NOTE 10. NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due Treasury is the residual of the book value of assets less liabilities of the Liquidating Funds. Subsequent to the completion of its audited financial statements each year, the SBA returns to Treasury the portion of this balance considered to be the unobligated balance for budgetary reporting at the fiscal year end (See Note 13).

(Dollars in Thousands)

LIQUIDATING FUNDS AS OF SEPTEMBER 30,	2005	2004
Pollution Control Equipment Contract Guaranty Fund	$ 8,548	$ 19,425
Disaster Loan Fund	89,697	98,713
Business Loan and Investment Fund	154,790	181,378
Total Due Treasury	**$ 253,035**	**$ 299,516**

NOTE 11. OTHER LIABILITIES

Other liabilities at September 30, 2005 and 2004 were:

(Dollars in Thousands)

	2005	2004
Intragovernmental Liabilities – Other		
Current		
Payable to Special Receipt Fund	$ 950,645	$ 556,249
Employment Taxes Payable	2,116	1,248
Advances from Other Agencies	4,304	2,513
Judgment Fund	1,300	
Total Current	958,365	560,010
Non-Current		
Federal Employee Compensation Act Payable	5,283	5,488
Payable to Federal Financing Bank	1,231	1,575
Total Non-Current	6,514	7,063
Total Intragovernmental Liabilities – Other	**$ 964,879**	**$ 567,073**
Other Liabilities – Public		
Current		
Accrued Funded Payroll Benefits	$ 19,174	$ 11,192
Accrued Unfunded Annual Leave	20,952	21,326
Suspense Accounts	3,642	3,359
Total Current	43,768	35,877
Non-Current		
Surety Bond Guarantee Program Future Claims	23,107	20,032
Prior Liens on Real Estate Payable	89	186
Total Non-Current	23,196	20,218
Total Other Liabilities – Public	**$ 66,964**	**$ 56,095**

Payable to Special Receipt Fund is the amount of downward subsidy reestimates calculated for each fiscal year that will be returned to the Treasury in the following year, per provisions of the Federal Credit Reform Act of 1990.

NOTE 12. STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by program activity. Full costs include all direct and indirect costs for a program. 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 programs are presented in the Consolidated Statement of Net Cost. Full program costs are comprised of all direct costs for the program and those indirect costs which can be reasonably assigned or allocated to the program, 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, which occur through the provision of goods and services for a price, and are deducted from the full cost of SBA's major programs to arrive at net program cost. 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 on their behalf. A major source of earned revenue includes interest earned on SBA's outstanding Business and Disaster loan portfolios and interest earned on uninvested funds in the credit reform financing account.

Reporting by Goals

The SBA reports costs consistent with its strategic goals. In FY 2004, the SBA developed a new strategic Goal 4 "Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services." These indirect support costs, however, are fully allocated to the other three strategic goals. Goal 4 costs are estimated at $ 82.5 million and $ 83.0 million for FY 2005 and FY 2004, respectively. Costs Not Assigned to Strategic Goals on the Statement of Net Cost include costs of congressionally mandated grant programs, the Office of the Inspector General.

Gross Cost and Earned Revenue by Budget Functional Classification

(Dollars in Thousands)

	GROSS COST	EARNED REVENUE	NET COST
2005			
Commerce and Housing Credit	$ 740,212	$ 394,586	$ 345,626
Community and Regional Development	877,485	415,302	462,183
2004			
Commerce and Housing Credit	$ 1,869,809	$ 419,494	$ 1,450,315
Community and Regional Development	667,976	370,754	297,222

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

(Dollars in Thousands)

	GROSS COST	EARNED REVENUE	NET COST
2005			
Commerce and Housing Credit	$ 241,856	$ 182,594	$ 59,262
Community and Regional Development	467,160	269,761	197,399
2004			
Commerce and Housing Credit	$ 314,025	$ 136,746	$ 177,279
Community and Regional Development	399,300	166,096	233,204

NOTE 13. 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, 2005 and 2004. SBA's total budgetary resources were $ 4.8 billion and $ 5.0 billion for the years ended September 30, 2005 and 2004. Additionally, $ 9.8 billion and $ 9.0 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, 2005 and 2004.

Adjustments to Beginning Balance of Budgetary Resources

The SBA made no adjustments to the beginning budgetary resources during the years ended September 30, 2005 and 2004.

Permanent Indefinite Appropriations

The SBA annually receives permanent indefinite appropriations for Liquidating Fund obligations and increases in the projected subsidy costs of loan programs as calculated by the annual reestimation process required by the Federal Credit Reform Act. FCRA requirements are used for credit program obligations made subsequent to FY 1991, and Liquidating Funds are used for credit program obligations made prior to FY 1992. Subsidy reestimate appropriations are used as needed for the SBA financing funds. The SBA returns unused liquidating fund appropriations each year.

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 guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2005 and 2004, the SBA received $ 4.2 billion and $ 2.2 billion of borrowing authority from the OMB. At the end of each fiscal year, the SBA had no 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 before 2001 or a single effective rate for cohorts 2001 and after. The SBA calculates and repays borrowings not needed for working capital after the end of each fiscal year. The SBA uses the loan principal, interest and fees collected from the public in its loan financing funds to repay its borrowings.

Apportionment Categories of Obligations Incurred

During FY 2005, the SBA incurred $ 7.9 billion of direct and reimbursable obligations of which $ 0.5 billion was apportioned in category A and $ 7.4 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, 2005 and 2004 are $ 6.7 billion and $ 6.4 billion which include $ 2.5 billion and $ 3.7 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by OMB. SBA accumulates these unobligated balances in its nonbudgetary financing accounts during the fiscal year ($ 5.7 billion in FY 2005 and $ 6.0 billion in FY 2004) 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 ($ 1.0 billion in FY 2005 and $ 0.4 billion in FY 2004) that are used to finance SBA's ongoing program operations.

Undisbursed Obligations

Undisbursed obligations for Disaster loan approvals were adjusted downward by $ 159.5 million at yearend to recognize the expiration of approvals that were past the disbursement period or post the document return date specified in the borrowers' loan authorizations. This adjustment included a corollary downward adjustment of $ 20.5 million to the Disaster loan subsidy obligation. This resulted from a processing backlog for Disaster loans to the victims of the Florida hurricanes that occurred in late FY 2004 and early FY 2005. This adjustment had a corresponding effect on the Unobligated Balances discussed above.

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

The President's FY 2006 budget request to Congress in February 2005 included actual results for FY 2004 that differed from the FY 2004 SBR. The SBR showed $ 86.0 million more for the ending FY 2004 unobligated balance brought forward due to the methodology used in gathering financial data from different sources. In FY 2005, the two data sources were reconciled and the difference between the two methodologies of determining the end of year balance was returned to the Treasury. The unobligated balance should be the same in the President's Budget Submission for FY 2007 and the FY 2005 SBR.

NOTE 14. STATEMENT OF FINANCING

The Statement of Financing demonstrates the relationship of budgetary amounts reported on the Statement of Budgetary Resources (which is prepared on a combined basis) to the proprietary amounts reported on the Statement of Net Cost (which is prepared on a consolidated basis). The focus of this presentation is to reconcile net obligations to the 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 Statement of Financing reconciles the two cost measurements, assuring that financial statement information is consistent with budgetary reports. Starting with net obligations, the Statement of Financing adjusts for resources that do not fund net cost of operations and components of net cost of operations that do not generate or use resources to arrive at net cost per the Statement of Net Cost.

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods on the Statement of Financing primarily due to reestimated subsidy costs of loan programs and change in Net Assets of Liquidating Funds due to the Treasury. 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.

NOTE 15. SIGNIFICANT EVENTS

In late August and September 2005, hurricanes Katrina and Rita struck the Gulf coast. 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.

As the fiscal year ends, the SBA, like other government agencies, faces uncertainty as to the full future effects of both hurricanes on its operations and financial condition. The SBA could experience additional administrative expenses, variations in loan performance of the existing business and disaster loan portfolios, and additional subsidy and administrative cost requirements related to new loans that will be made in the affected areas. Subsequent to the end of this fiscal year, the SBA took action to provide an extension of payments and deferral of maturity dates for its existing loan portfolio in the disaster affected area. The SBA has provided similar relief in past disasters and no adverse impact is expected from this relief.

The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience responding to prior disasters and primarily takes the form of increased expenditures for travel and temporary personnel. The Agency has accrued appropriate liabilities in the financial statements for all administrative cost increases incurred to date. In addition, Katrina and Rita caused direct property losses to three of SBA's field offices and made the relocation of affected personnel necessary; these events are immaterial to the FY 2005 financial statements.

The provisions of the Federal Credit Reform Act of 1990 govern the valuation of SBA's portfolio of existing business and disaster loans as well as the determination of the appropriate subsidy rate for the disaster loans that the SBA will approve in response to hurricanes Katrina and Rita. The FCRA provides permanent indefinite authority for reestimates of subsidy cost for existing loans to the extent necessary. Any initiatives that would change existing program terms or conditions would require additional appropriations to fund subsidy modification costs before implementation. New loans that could have additional subsidy and administrative costs would require additional appropriations as well. Therefore, any additional significant expenses associated with the hurricanes will be covered by additional appropriations or permanent indefinite budget authority, and would not have an adverse impact on SBA's financial condition.