U.S. Small Business Administration

SBA

Your Small Business Resource

Management's Discussion and Analysis

FY 2007 Pilot Program for Alternative Approaches to Performance and Accountability Reporting

The SBA has chosen to produce an alternative to the consolidated PAR called an Agency Financial Report (AFR). The SBA has chosen to participate in the FY 2007 pilot pursuant to Circular A-136. It will include its FY 2007 annual performance report and FY 2009 performance plan in its Congressional Budget Justification and will post it on SBA's web site at www.sba.gov by February 4, 2008. In addition, the SBA will produce a "Highlights" document on it's web site. The SBA anticipates that this approach will improve its performance reporting.

Executive Summary

The Mission

The U.S. Small Business Administration's mission is to promote small business development and entrepreneurship through business financing, government contracting, and management assistance. The SBA also works with other federal agencies to reduce the regulatory and paperwork burdens on small businesses, and it serves as the government's long-term lender to homeowners, renters, and businesses affected by disasters.

The importance of small businesses to the country is clear: there have been more than eight million new American jobs created in just over four years, more than in all the other industrialized nations combined. Two-thirds of these new jobs were created by small businesses. Entrepreneurs enable an economy driven by innovation and regeneration, which keeps the country competitive and growing. Small business can also be a powerful source of community transformation and a bridge to ownership and opportunity for Americans of all backgrounds.

Financial Results

The SBA is the smallest of the major federal credit agencies. Unlike the other major federal credit agencies most of SBA's available budgetary resources are devoted to its credit programs. For FY 2007 the Agency's available budgetary resources were $2.9 billion and nonbudgetary resources in the loan financing funds were $9.1 billion.

As of September 30, 2007, the SBA had guaranteed $58.4 billion of loan principal, up 7 percent from the $54.6 billion guaranteed as of September 30, 2006. At the end of FY 2007, the total outstanding balance of SBA's total loan portfolio was $84.5 billion, an increase of 8 percent above FY 2006. SBA's portfolio has increased 59 percent since FY 2001. The Agency's portfolio of loans receivable also continued to grow. Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs. These receivables were valued at $8.3 billion this year, an increase of 31 percent over last fiscal year. This increase is due to the disbursement of an unprecedented volume of disaster loans to the victims of hurricanes Katrina, Rita and Wilma. More than 99 percent of the loans made to victims of the Gulf Coast hurricanes of 2005 have had disbursements.

This year the Agency received an unqualified audit opinion with no material weaknesses. This compares favorably to FY 2006, when one material weakness in financial reporting was identified. During FY 2007, the Agency continued to strengthen the internal control over financial reporting and credit subsidy cost modeling through additional quality assurance procedures for validating loan program data. In addition, the Agency completed actions to address most of the other issues raised by its auditor in the FY 2006 financial audit, including weaknesses in information technology system security. IT security is still considered an area of significant deficiency, but is not a material weakness.

The SBA also implemented its second year of the internal control requirements for financial reporting required by OMB's Circular A-123. The Agency evaluated 17 business processes, 14 of which impacted financial operations. Although the SBA did identify a number of deficiencies, only six were categorized as significant deficiencies, and none were identified as material weaknesses.

During FY 2007 the Agency made progress in eliminating improper payments in two program areas. Improper payment rates decreased in FY 2007 compared to FY 2006 for the 7(a) program (0.43 percent vs. 1.56 percent) and in the Disaster program (0.55 percent vs. 0.8 percent). The improvement in the Disaster program is of particular note given the magnitude of payments made in FY 2007 due to the Gulf Coast hurricanes. The SBIC program did have an increase of 0.16 percent over 0 percent in FY 2006. With new OMB guidance this year, the guaranties for the 7(a) and 504 programs were also tested, with a 0 percent improper payment rate for both.

Program Results

FY 2007 was another year of significant accomplishment for the SBA. A total of 103,000 new 7(a) and 504 loans were funded – the most in the Agency's history. They represent

$19.8 billion in new lending to America's small businesses. These small businesses were able to get started, or to expand and grow, through access to capital that likely would not have been available without the SBA.

SBA's Office of Disaster Assistance continued working with the victims of hurricanes Katrina, Wilma, and Rita throughout FY 2007. The program funded almost $1.7 billion in Disaster loans during the year. Of those, about $820 million were for new loan approvals and much of the balance was for activity related to the three Gulf Coast hurricanes of 2005, including loan increases and other changes.

The SBA supports the Administration in meeting its statutory commitment to provide a fair share of federal contracting dollars to small businesses. The Agency administers a small business goal-setting program across all federal agencies to assist in the achievement of this government-wide goal. In FY 2006 (the most recent fiscal year for which data is available), federal agencies reported that a total of $78 billion in federal prime contract dollars went to small businesses. This is slightly more than FY 2005, when $75 billion was reported. During FY 2007 the SBA took steps to improve the data used for small business contract reporting to improve its accuracy and reliability.

In FY 2007 an estimated 1.1 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners: the Small Business Development Centers, the Women's Business Centers, and SCORE. The SBA leverages its resource partner network for training and counseling in business plan development, marketing strategies, implementing new technologies, accessing capital, winning government contracts and many other undertakings vital to the success of a small business throughout its lifecycle. SBA's investment of $106 million in FY 2007 in grant funding for these programs provides imperative, targeted technical services to business owners throughout the nation.

Management Results

At the end of FY 2007 the SBA was ranked "green" in status on one President's Management Agenda item, Improved Program Performance, and "red" on one, improved Credit Management. The SBA is "yellow" on the other six items. Although the Agency eliminated two "red" ratings, Improved Financial Performance and Faith-Based and Community Initiatives, three ratings that were "green" at the end of FY 2006 have dropped to "yellow": Competitive Sourcing, Electronic Government, and Eliminating Improper Payments. For the fourth quarter of FY 2007, the SBA was rated "green" in progress for all PMA items except Competitive Sourcing and Electronic Government, for which the Agency received "yellow". Three SBA programs were evaluated through the Program Assessment Rating Tool this year: 7(a) and 504 loans and the Small Business Investment Company program. All three programs were rated moderately effective. Based on the results of this financial audit, the SBA expects to be "green" for progress and status on the Improved Financial Performance PMA as of the first quarter of FY 2008.

On September 30, 2007 the SBA released its revised strategic plan for FY 2008 – 2013. Data reported in this Agency Financial Report are structured according to the previous strategic plan, which was in effect during FY 2007.

Ensuring Financial and Program Results Through a Well-Trained Workforce

The SBA believes a strong internal control environment requires a well-trained staff. In surveys and self assessments, SBA staff members have indicated a need for training. In FY 2007, the Agency developed a major training initiative called SBA University. Over 1,300 SBA employees received classroom style training on core job competencies. The topics were aligned by individual work areas including material on operations, rules and processes, regulations and compliance and new initiatives. The resounding success of this effort, which was highly rated by the participants, will help improve program results and ensure that relevant staff members understand internal controls and follow required procedures.

The SBA by the Numbers

		FY 2004	FY 2005	FY 2006	FY 2007
Financial Assistance (1)					
7(a) Loans (2)	Dollars of Loans Funded ($Million)	$ 12,713	$ 14,287	$ 13,758	$ 13,517
504 Loans (2)	Dollars of Loans Funded ($Million)	$ 3,966	$ 5,000	$ 5,701	$ 6,281
Microloans	Dollars of Loans Funded ($Million)	$ 23	$ 20	$ 19	$ 19
SBIC (3)	Dollars of Financings Funded ($Million)	$ 4,607	$ 355	$ 477	$ 707
7(a) Loans (2)	Number of New Loans Funded	72,179	88,845	90,483	92,553
504 Loans (2)	Number of New Loans Funded	7,694	8,974	9,720	10,405
Microloans	Number of New Loans Funded	2,399	2,436	2,395	2,427
SBIC	Number Existing Small Businesses Assisted	1,675	1,559	1,488	1,388
Disaster Assistance (4)	Dollars of Loans Funded ($Million)	$ 688	$ 1,272	$ 8,785	$ 1,663
	Number of Loans Funded	22,264	41,651	137,803	13,716
Total Portfolio	Outstanding Principal Balance ($Million)	$ 64,373	$ 71,477	$ 78,064	$ 84,528
Management Assistance (5)					
SCORE (6)	Number Small Businesses Assisted	468,152	403,724	308,710	340,691
SBDC	Number Small Businesses Assisted	725,799	706,501	667,660	N/A
WBC	Number Small Businesses Assisted	122,712	144,316	129,373	148,340
District Offices Counseling & Training	Number Small Businesses Assisted	329,270	409,276	315,665	348,855
Procurement Assistance					
Prime Contracting	Annual Value of Federal Contracts ($Billion)	$ 69	$ 80	$ 78	N/A
Surety Bond	Final Bonds Guaranteed	N/A	1,680	1,706	1,619
HubZone	Annual Value of Federal Contracts ($Billion)	$ 4.8	$ 6.1	$ 7.1	N/A
8(a) Program	Small Businesses Assisted	8,900	9,458	9,600	9,536
Regulatory Assistance					
Advocacy(7)	Regulatory Cost Savings ($Million)	$ 17,050	$ 6,600	$ 7,250	$ 2,600

(1) Value of loans funded inlcudes new loan approvals - decrease/cancellations to current year loans + increases to loans in the current year + reinstatements. Number of loans funded includes loans approved in the current year - cancellations of current year loans. All 7(a) data in this table includes the 7(a) STAR program.

(2) Includes loans for start-ups and existing small businesses.

(3) The Participating Securities Program ended in FY 2004.

(4) Value of loans funded includes new loan approvals - decrease/cancellations to current year loans + increase to loans in the current year + reinstatements. Number of new loans funded includes loans approved in the current year - cancellations of current year loans + reinstatements. FY 2007 Includes $157 million (2,463) originally approved in FY 2006.

(5) The Management Assistance Programs final numbers are not available until after November 15. Therefore, the FY 2007 numbers are estimated, and the FY 2006 numbers were updated since the FY 2006 PAR to reflect the actuals for that fiscal year.

(6) In FY 2006, SCORE implemented new client definitions. Although the change in definitions resulted in lower counseling and training goals, SCORE's overall performance was not reduced.

(7) For FY 2007 this is an estimate that will be finalized February 2008.

N/A - Not Available

SBA's History and Organization

Mission and History

Congress created the Small Business Administration in 1953 to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property. In short, SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters. Agency programs include financial, procurement and management assistance, and specialized outreach to veterans, women and underserved markets. Since its inception, the SBA has made or guaranteed in excess of $200 billion in business loans.

However, beyond the numbers, the SBA has stamped its mark on many small businesses that have grown to become household names and leaders in their field. These firms include Jenny Craig, Intel, Sun Microsystems, Radio One, Hewlett-Packard, FedEx, Staples and a host of others. In 2007, the SBA celebrated a North Carolina health care company owned by Native American sisters as the National Small Business of the Year. "Bobbie Jacobs-Ghaffar and Lesa Jacobs epitomize the hard work, the risk-taking, and the creativity that are the characteristics of successful American entrepreneurs," said SBA Administrator Steven C. Preston. "Their company, Native Angels Home Care and Hospice, embodies the best of entrepreneurship, citizenship and the American dream." For more detailed information on other success stories for 2007, please visit http://app1.sba.gov/sbsuccess/2007.

Success Story

Native Angels Home Care and Hospice

2007 National Small Business of the Year

A pair of Native American sisters from Lumberton, N.C., who dreamt of turning their health care experience into a thriving homegrown business – Bobbie Jacobs-Ghaffar and Lesa Jacobs – were named *National Small Business Persons of the Year* during ceremonies at the U.S. Small Business Administration's Small Business Week 2007.

Bobbie Jacobs-Ghaffar and Lesa Jacobs, members of the Lumbee Indian Tribe, took their combined 40 years health care experience and launched a homegrown healthcare business in 2000. The company provides "a full spectrum of holistic healthcare" and aims to "empower individuals in our community to make informed health decisions that will have a positive impact on the quality of their lives and their families' lives." At the start, they had only one cell phone, two patients and a certified nursing assistant. Today, Native Angels Homecare and Hospice provides a broad range of services, employing 301 professionals and serving 760 patients daily, with annual sales over $9 million. A new $7.2 million headquarters building is being financed with an SBA 504 loan.

SBA Organization by Key Assistance Areas

The SBA is an organization with a nationwide presence that serves to aid, counsel, assist and protect the interests of small businesses. The SBA headquarters building is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands and Guam.

The SBA is organized around five key functional areas: Financial Assistance, Procurement Assistance, Management Assistance, Disaster Assistance and Regulatory Assistance. Other Assistance captures all other activities. Below are brief descriptions of the SBA offices and programs and some of the products and services they provide.

Financial Assistance

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504, Microloan, and Small Business Investment Company programs. OCA is also responsible for the Surety Bond Guarantee and the International Trade Assistance programs.

Disaster Assistance

The Office of Disaster Assistance provides affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster.

Management Assistance

The Office of Entrepreneurial Development provides business counseling and training through its partners network composed of Small Business Development Centers, Women's Business Centers and SCORE. The office also provides online training through the Small Business Training Network, available at www.sba.gov. In addition, district offices provide counseling and training that complements the assistance provided by SBA's partners.

Procurement Assistance

The Office of Government Contracting and Business Development provides assistance to small business in obtaining federal procurement opportunities through the government-wide Prime and Subcontracting programs. Additionally, the 8(a) Business Development program assists small businesses to be better prepared to take advantage of procurement opportunities. GCBD also sets size standards for small businesses which determine when a business will be considered a small business for federal procurement purposes.

Regulatory Assistance

The Office of Advocacy provides an independent voice within the federal government for small business to advance it's views, concerns, and interests before Congress, the federal government, federal courts and state policy makers.

The National Ombudsman receives complaints and comments from small businesses that feel they have experienced unfair or excessive regulatory enforcement actions by federal agencies.

Other Assistance

The Office of Veterans Business Development formulates and delivers policies and programs that provide assistance to veterans seeking to start and develop small businesses.

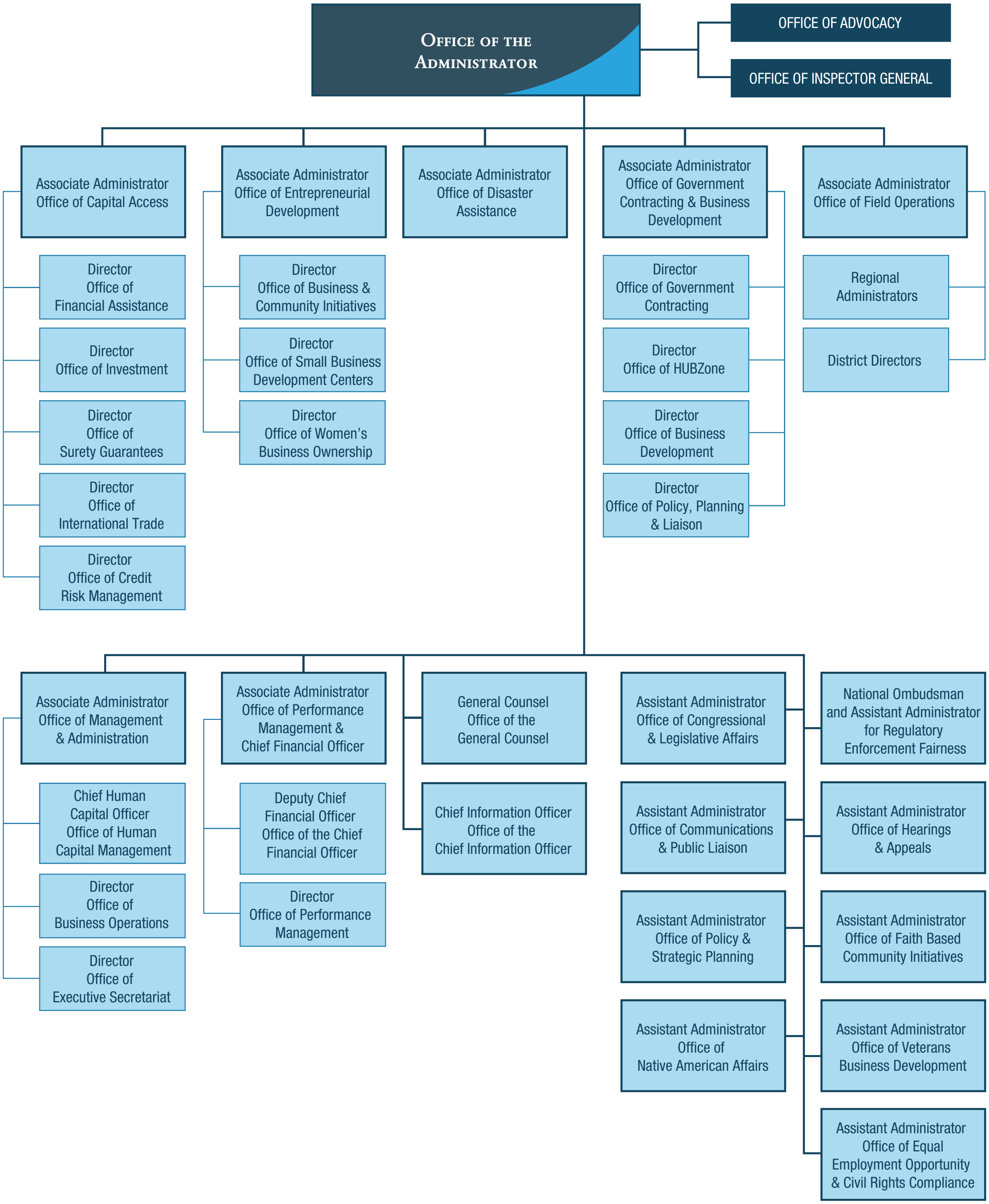
The Office of Native American Affairs focuses on the assistance provided to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa.

Did you know

Q. What do Intel, America Online, Outback Steakhouse, Apple Computer, Amgen, Ben & Jerry's, Callaway Golf, Staples, Under Armour, Nike, and Federal Express have in common?

A. All received help from one of SBA's programs.

SBA's Organizational Chart



Performance Results

How the SBA Assesses Performance

The SBA uses a standardized performance system designed to emphasize the interrelationship between its various offices and to illustrate that the achievement of the mission of the Agency is the ultimate goal. Each of the components of SBA's performance structure is defined below.

Mission - The mission of the SBA is established by the Small Business Act, and it is the overarching principle that governs all actions of the Agency.

Strategic Goals - The SBA has four strategic goals. The first strategic goal shows how the SBA improves the economic environment for small businesses. The second strategic goal highlights programs that assist small business directly or through SBA's partners. The third strategic goal focuses on the assistance that the Agency provides in cases of disasters. The fourth strategic goal defines the responsibility of the Agency's executive leadership and support functions in helping to accomplish the programmatic goals.

Long-Term Objectives - Long-term objectives describe in general terms the results the SBA needs to achieve in order to accomplish its strategic goals, at the same time making the focus of the Agency more specific.

Outcomes - Outcomes are defined and measured at the level of the Agency. Outcomes measure the effect program outputs have on their stakeholders. More than one program may contribute to the achievement of an outcome.

Outputs - Outputs are the quantifiable targets that directly measure the results of a program. A program may have many outputs, but each output is associated with only one program.

Efficiency Measures - An efficiency measure is the cost to produce one output or intermediate unit. This allows for cost comparison among programs. Every SBA program has at least one efficiency measure.

Strategic Goal Structure[1]

STRATEGIC GOAL 1 – Improve the economic environment for small business

- Minimize the regulatory burden on small businesses.
- Simplify the interaction between small businesses and the federal government through the use of the Internet and information technology.
- Increase the effectiveness of federal agencies to provide opportunities for small business.

STRATEGIC GOAL 2 – Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

- Increase the positive impact of SBA assistance upon the number and success of small business start-ups.
- Maximize the sustainability and growth of existing small businesses assisted by the SBA.
- Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps.

STRATEGIC GOAL 3 – Restore homes and businesses affected by disasters

- Restore homes and businesses affected by disasters.

STRATEGIC GOAL 4 – Ensure that all SBA programs operate at maximum efficiency and effectiveness

- SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.
- The SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and

1 The strategic goal structure described here reflects the FY 2006-2011 Strategic Plan in effect during FY 2007. On October 1, 2007 the SBA issued a revised Strategic Plan covering the years FY 2008 – 2013. The revised Strategic Plan may be viewed at http://www.sba.gov/aboutsba/budgetsplans/index.html.

executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.

- Financial management systems will support both SBA strategic management and financial accountability by providing information that is useful, relevant, timely and accurate and which assists the SBA in maximizing program performance and accountability.
- Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.
- Procurement and contracting services will be planned and managed to support SBA program management and the achievement of Agency goals.

Performance Information Collection and Validation

Managing for results and producing an Annual Performance Plan and an Annual Performance Report requires valid, reliable and high-quality performance measures and data. The SBA is committed to the continuous improvement of its performance and financial management data. To this end the Agency has established a multifaceted strategy to achieve this goal which includes: a data validation system; mandatory source documentation policy; documentation of calculation methodology for all estimates; and standardization of client definitions.

All indicators are fully supported by documentation. This documentation is available for review.

Success Story

ICI, LLC

8(a) Helps Support Our Armed Services

Following 10 years service as a U.S. Naval Officer on various ships as well as the U.S. Naval Safety Center, and nearly 20 years working for a large government contractor, Dennis M. McCarley started his own government contracting business, ICI Services, LLC in Prince William County, Virginia.

ICI, LLC is a veteran-owned small business that provides engineering and technical support to the U.S. Navy, Army, Air Force and other federal agencies. Since having been certified in the U.S. Small Business Administration's 8(a) and Small Disadvantaged Business programs in 2003, ICI has been awarded $58 million in contracts and has received substantial support in the form of training from the Richmond office of the Small Business Administration. The 8(a) Business Development program is an essential instrument for helping socially and economically disadvantaged entrepreneurs gain access to the economic mainstream of American society.

Today ICI has grown from one employee to more than 200, supports staff working in 13 states and Japan, and has annual revenues that exceed $18 million.

Publication: The Free Lance Star, Fredericksburg, Virginia

Summary Performance Information on Key SBA Programs

Program Performance Indicators

Included below are summary performance results for SBA's three principal loan and guaranty programs - 7(a), 504, and disaster assistance. These programs make up the majority of SBA's loan portfolio. Detailed performance measure information on all programs will be presented in the FY 2009 Congressional Budget Justification submission on February 4, 2008. The following tables and charts summarize the FY 2007 performance information for 7(a), 504, and Disaster loans.

Program	Performance Indicator		FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Goal	FY 2007 Actual	FY 2007 Variance
7(a)	Small business loans funded (#)	Output	72,179	88,845	90,483	94,128	92,553	-1.7% G
7(a)	Small businesses assisted (#)	Output	68,895	83,102	80,303	88,207	84,666	-4.0% G
504	Small business loans funded (#)	Output	6,383	7,712	8,162	8,251	8,832	7.0% G
504	Small businesses assisted (#)	Output	6,329	7,629	7,569	8,162	8,238	0.9% G
Disaster	Customer satisfaction rate	Outcome	67%	66%	57%	72%	66%	-8.3% G
Disaster	Disasters having field presence within 3 days (%)	Output	100%	100%	100%	95%	100%	5.3% G
Disaster	Time to process 85% of business applications for physical losses (days)	Output	14	35	66	17	11	35.3% Y

Y	Actual greater than 10% over target
R	Actual greater than 10% under target
G	Met target within +/- 10%

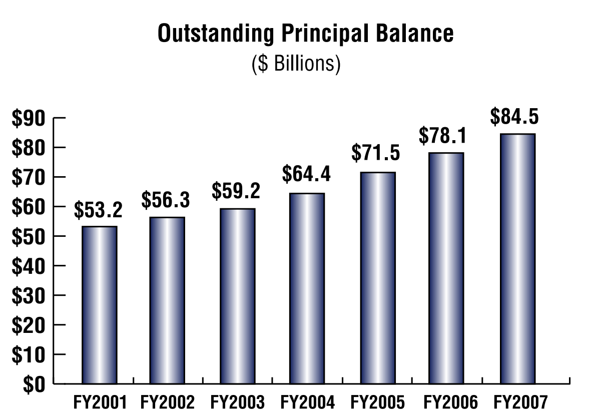
Did you know

SBA's Office of the National Ombudsman assists small businesses with unfair and excessive regulatory enforcement actions taken by federal agencies. Actions taken could include repetitive audits or investigations, excessive fines, penalties, retaliation or other unfair regulatory enforcement action.

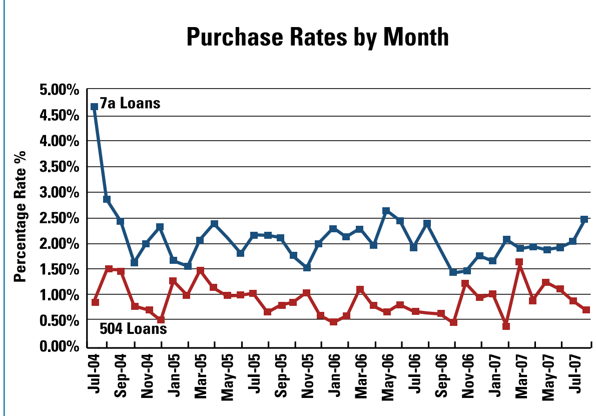
Portfolio Analysis

The SBA is the taxpayers' custodian of a loan portfolio of $84.5 billion, as shown here. This portfolio includes both guarantied and direct business loans and direct disaster loans. The portfolio continues to grow each year; it was 8 percent greater at the end of FY 2007 than in FY 2006 and 59 percent greater than in FY 2001.

To ensure SBA's good stewardship of a portfolio of this size, the Agency's Office of Credit Risk Management has a state of the art loan and lender monitoring system that incorporates credit scoring metrics for portfolio management to track and monitor the risk in its two main business loan programs – 7(a) and 504. Data are used to analyze performance for the overall portfolio, portfolio segments and subprograms, and for individual lender and lender peer groups. In addition, the SBA has data on the credit quality of the loan portfolios in the form of portfolio (not origination) credit scores on almost all outstanding 7(a) and 504 loans. SBA loan and lender data, including lender performance, are updated monthly. Contractor-provided credit quality and other data are updated quarterly. Credit data are also used to predict future performance of the loan portfolio and to forecast potential future risk. All of these data are also being used by the Agency to make more informed management decisions regarding loan program policy.

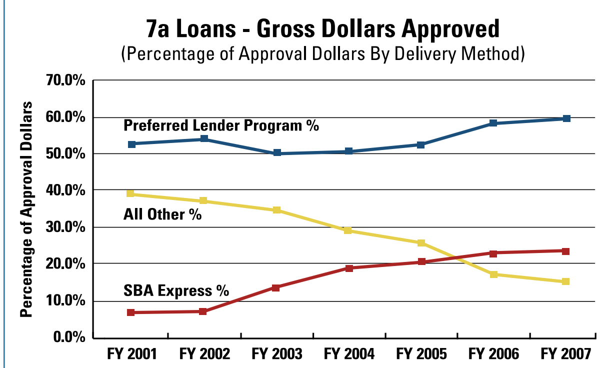


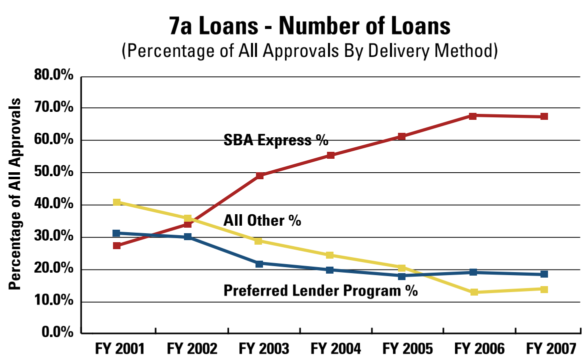
The Office of Credit Risk Management calculates the purchase rate as the dollar volume of loan guaranties purchased by the SBA divided by the dollar amount of the guarantied loan portfolio outstanding each month. This measure is comparable to a lender's measure of a default rate. Purchase rates for the 7(a) and 504 programs have been relatively stable for the past three years. In the case of 7(a), these rates were at a high point at the beginning of that 3-year period, but since then have been between 1.4 percent and 2.9 percent, with an average for the period of 2.12 percent. Purchase rates for the 504 program have been significantly lower, ranging between 0.4 percent and 1.6 percent, with an average for the period of 0.92 percent. It is important to note that the SBA also calculates the forecasted lifetime default rate for each loan cohort (origination year) under the requirements of the Federal Credit Reform Act. This measure shows the entire loan amount expected to be purchased by the SBA over the life of the loans in the cohort divided by the amount originated in that fiscal year. For the FY 2007 cohort, the 7(a) lifetime forecast default rate is 7.19 percent. For the 504 program, the FY 2007 cohort forecast lifetime default rate is 4.11 percent.



The 7(a) program has a number of different delivery systems. The two largest are SBAExpress and the Preferred Lender Program. Generally, SBAExpress borrowers are looking for smaller loan amounts and are frequently start-up small businesses. A substantial number of SBAExpress borrowers receive working capital loans and revolving lines of credit. In contrast, PLP loans are generally for larger amounts and on average carry longer terms than SBAExpress loans, so in many cases the borrowers will be more established businesses and/or larger businesses. PLP loans often include collateral, which may also be reflective of more established businesses and/or businesses that need larger loan amounts, often for construction and/or real estate.

The following charts show the recent growth of the SBAExpress product. Whereas in FY 2001 only 28 percent of 7(a) loans were SBAExpress, by 2007 68 percent of 7(a) loans were SBAExpress. In the same period the proportion of PLP loans dropped from 31 percent to 19 percent. Interestingly, in terms of dollars approved, a very different pattern has emerged. The PLP has remained fairly stable in terms of the percentage of 7(a) dollars approved (from 54 percent to 61 percent), while SBAExpress is only 24 percent of the total dollars approved in FY 2007 – despite the fact that more than two thirds of the loans approved were SBAExpress loans — because SBAExpress loans are so much smaller in size.





The following charts show the number of loans, dollar value of the SBA guaranty, and percentage of the SBA guaranty share of 7(a) and 504 loans by industry in the active loan portfolio. The top industries listed represent 75 percent of the 7(a) loans and 69 percent of 504 loans. Many of the most heavily represented industries appear among the top ten in both programs, such as: Food Service and Drinking Places; Accommodation; Professional, Scientific, and Technical Services; Ambulatory Health Care; and Repair and Maintenance.

7(a) Loans by Sector

(Active Loans)

NAICS Sub-Sector Code	Number of Loans	SBA Share ($ Millions)	% of SBA Share
Food Services and Drinking Places	34,264	$ 4,085	12.86%
Ambulatory Health Care Services	17,002	2,041	6.43%
Gasoline Stations	5,865	2,010	6.33%
Professional, Scientific, and Technical Services	28,941	1,986	6.25%
Repair and Maintenance	16,457	1,878	5.91%
Accommodation	4,061	1,832	5.77%
Food and Beverage Stores	12,324	1,615	5.09%
Personal and Laundry Services	17,618	1,489	4.69%
Specialty Trade Contractors	15,957	959	3.02%
Administration and Support Services	15,615	800	2.52%
Social Assistance	5,049	777	2.45%
Merchant Wholesalers - Durable Goods	8,196	744	2.34%
Amusement and Recreation Industries	5,123	717	2.26%
Fabricated Metal Product Manufacturing	3,828	622	1.96%
Miscellaneous Store Retailers	9,563	534	1.68%
Motor Vehicle and Parts Dealers	4,907	495	1.56%
Merchant Wholesalers - Nondurable Goods	5,399	431	1.36%
Building Material, Garden Equip & Supplies	3,412	386	1.22%
Real Estate	4,788	367	1.16%
All Other	91,495	7,992	25.16%
Total	**309,864**	**$ 31,760**	**100.00%**

504 Loans by Sector

(Active Loans)

NAICS Sub-Sector Code	Number of Loans	SBA Share ($ Millions)	% of SBA Share
Accommodation	2,869	$ 2,031	10.94%
Professional, Scientific, and Technical Services	4,140	1,510	8.14%
Food Services and Drinking Places	3,458	1,300	7.00%
Ambulatory Health Care Services	3,633	1,236	6.66%
Repair and Maintenance	3,089	891	4.80%
Merchant Wholesalers - Durable Goods	1,230	559	3.01%
Motor Vehicle and Parts Dealers	1,236	538	2.90%
Fabricated Metal Product Manufacturing	1,333	533	2.87%
Gasoline Stations	1,234	509	2.74%
Amusement and Recreation Industries	916	464	2.50%
Specialty Trade Contractors	1,182	432	2.33%
Wholesale Trade Durable	1,098	398	2.14%
Social Assistance	1,147	384	2.07%
Merchant Wholesalers - Nondurable Goods	611	351	1.89%
Food and Beverage Stores	988	348	1.88%
Personal Laundry Services	1,117	329	1.77%
Administrations and Support Services	1,009	318	1.71%
Furniture and Home Furnishings Stores	699	317	1.71%
Printing and Related Support Activities	695	303	1.63%
All Other	14,691	5,809	31.30%
Total	**46,375**	**$ 18,560**	**100.00%**

Analysis of SBA's Financial Statements

Analysis of Financial Results

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. These financial statements have been prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990.

Background

The SBA is the smallest of the major federal credit agencies, behind the Department of Agriculture, the Department of Education, the Department of Housing and Urban Development and the Department of Veterans Affairs. Unlike the other major federal credit agencies, most of SBA's available budgetary resources are devoted to its credit programs. For FY 2007 SBA's available budgetary resources were $2.9 billion, and nonbudgetary resources in the loan financing funds were $9.1 billion.

At September 30, 2007, the SBA had guaranteed $58.4 billion of loan principal, up 7 percent from $54.6 billion guaranteed at September 30, 2006. SBA's portfolio of loans receivable also continued to grow. Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs. These receivables were valued at $8.3 billion this year, an increase of 31 percent over last fiscal year. This increase is due to the disbursement of an unprecedented volume of disaster loans to the victims of hurricanes Katrina, Rita and Wilma. The loan portfolio includes defaulted guarantied loans, loans made directly to the victims of natural disasters and loans made directly to microloan intermediaries.

SBA's assets and liabilities are primarily the result of its credit program activities. These assets and liabilities consist of fund balances with Treasury, credit program receivables, liabilities for loan guaranties, and debt with Treasury. SBA's loans and guaranties are financed by a combination of subsidy appropriations, fees charged to lenders and borrowers, and borrowings from the Treasury. Congress provides appropriations to cover the estimated long term costs of SBA Disaster loans while SBA's guaranteed business loan program costs are financed through fees. These costs are defined as the net present value of the estimated cash outflows and inflows associated with the loans. The remaining portion of each direct loan disbursed is financed under permanent indefinite authority to borrow funds from the Treasury's Bureau of Public Debt. Borrowings are repaid to the Treasury as loans are repaid to the SBA.

Financial Position

Assets

The SBA had total assets of $14.5 billion at the end of FY 2007, up 11 percent over FY 2006. Assets increased primarily due to an increase in the net book value of credit program receivables. Per the provisions of the Federal Credit Reform Act of 1990, credit program receivables are valued at the present value of expected future cash flows.

Liabilities

The SBA had total liabilities of $14.1 billion at the end of FY 2007, up 17 percent over 2006. Liabilities consist primarily of the Liability for Loan Guaranties and Debt with Treasury. The Liability for Loan Guaranties is defined as an estimate of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guaranty loan programs. The Debt with Treasury increased 22 percent because of the significant rise in disaster loans disbursed for the victims of the hurricanes. This increase in the Debt with Treasury is consistent with the increase in the credit program receivables.

Net Position

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations, decreased in FY 2007 to $402.9 million. Cumulative Results of Operations is the accumulated difference between expenditures and financing sources since the inception of the Agency. The loss shown as Cumulative Results of Operations decreased due to decreased unfunded upward subsidy reestimates, from $773.8 million at September 30, 2006 to $571.3 million at September 30, 2007. This was due to a decrease in the upward subsidy reestimates of the disaster loan programs from FY 2006 to FY 2007. Unfunded expenses do not yet have a financing source. They result in an increase in 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. Unexpended Appropriations decreased $865.1 million from FY 2006 to FY 2007. Unexpended Appropriations decreased because in FY 2007 the appropriations used/expenditures were greater than the appropriations received. This is due to the expenditure activity offset against the carry forward unobligated balance from FY 2006 and prior year recoveries. The Disaster program is the primary component of the carry forward unobligated balance.

Results of Operations

Each year the estimated long term costs of SBA's loans are reestimated for each major loan program. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite authority, while decreased costs are returned by the SBA to a Treasury general fund. During FY 2007, the reestimated cost for the Disaster direct loan program decreased and is the largest component of the change in the Agency's Net Cost (see discussion of Strategic Goal 3).

Strategic Goal 2 includes a net downward reestimate for the Business Loan Guaranty and Business Direct Loan programs in FY 2007. This consists of net downward reestimates in the SBIC Debentures program and the 504 Certified Development Companies program offset by net upward reestimates in the SBIC Participating Securities program and the 7(a) Loan Guaranty program. The SBIC Debentures program had the largest net reestimates for the guaranteed business loan programs in FY 2007 with net downward reestimates of $101.9 million for the 2007 financial statements. The downward reestimates are the result of a reduction in the amount of projected purchases based on additional actual performance data in the remaining performance years within the cohorts. The 504 Certified Development Companies program net downward reestimates of $30.4 million are among the smallest net reestimates in the program's history. The relatively small reestimate indicates that the program has become relatively stable.

The $50.5 million net upward reestimates for the SBIC Participating Securities program are mostly for disbursements in the more recent cohorts. The 7(a) Loan Guaranty program's net $52.0 million upward reestimate is one of the smallest dollar value changes in subsidy expense in the program's history. The net upward reestimates are the result of minor modeling enhancements that more accurately reflect the costs of the program. The reestimates reflect the stability of the ongoing loan performance as well as the consistency of the credit subsidy model.

Strategic Goal 3 includes a net downward reestimate for FY 2007 in the Disaster Direct Loan program. The Disaster program had relatively minor reestimates with the exception of the 2005 and 2006 cohorts that have $7.1 billion in disbursements through the end of FY 2007 and account for $135 million of the net downward reestimate of $185.1 million for FY 2007. The downward reestimate relates to a higher proportion of home loan disbursements in FY 2007; home loans typically perform better than other disaster related loans. Modeling enhancements that included expanding the "age probabilities" account for the remaining portion of the downward reestimate. Strategic Goal 3 also reflects a decrease in the administrative expenses in the Disaster program. The decline in administrative expenses is consistent with a decrease of time spent on Disaster activity because there were no new major disasters in FY 2007.

Budgetary Resources

Total Budgetary Resources decreased $10.6 billion from FY 2006 to FY 2007. This decrease is primarily due to a decrease in borrowing authority in the nonbudgetary loan financing funds. Borrowing authority decreased by $9.1 billion from FY 2006 to FY 2007. A record level in excess of $11 billion of Disaster loans was approved by the SBA in FY 2006 for Gulf Coast hurricane victims. In FY 2007, these loans are still being disbursed, but the approvals/borrowing authority occurred in FY 2006, resulting in the decrease in borrowing authority in FY 2007.

Status of Budgetary Resources

Total Status of Budgetary Resources decreased $10.6 billion from FY 2006 to FY 2007. This decrease is primarily due to a decrease of $7.4 billion in obligations incurred in the nonbudgetary loan financing funds. This reduction is related to the approvals for Gulf Coast hurricane victim disaster loans and the associated decrease in borrowing authority for FY 2007. The funds for these disaster loans were approved and obligated in FY 2006 but disbursed in FY 2007, thereby resulting in a decrease in new obligations incurred during FY 2007.

The other significant change in the Status of Budgetary Resources was a decrease of $2.4 billion in the ending unobligated balance, primarily in the nonbudgetary loan financing funds. Unobligated balances accumulate in these financing funds from program collections that are used primarily to repay the Treasury borrowings in the following year. The difference between the total budgetary resources (borrowing authority, appropriations received, etc.) and the obligations incurred during the year is the resulting ending unobligated balance.

Success Story

CakeLove
SBA Serves the Sweetest Success

Warren Errol Brown left his role as a federal attorney to pursue his true passion, baking cakes! Mr. Brown explains simply, "Practicing law didn't speak to me. . ."

Mr. Brown opened CakeLove located Washington, D.C. in March 2002 with the support of an SBA guarantied small business loan. Since then, he has opened a second storefront business, Love Café, in August 2003, a third storefront business located in downtown Silver Spring, Maryland in February 2006 with the support of SBA guarantied financing, and now, a fourth location soon to open in Arlington, Virginia.

CakeLove's revenue has grown in the past three years by an average of $6,000 a month to a combined earning of over $120,000 a month with a staff of 60 employees. Without the necessary assistance from the SBA, Mr. Brown's vision would not have been realized.

Additionally, Mr. Brown is the host of Sugar Rush, a new prime time thirty minute program airing on the Food Network broadcast via cable and is available in 87 million homes in the United States. Sugar Rush discovers and shares with its viewers the secrets that pastry chefs use when creating delicate sugar art and decadent desserts.

Mr. Brown has been recognized for his excellent entrepreneurial spirit by national media and has been featured by a number of television shows, magazines and newspapers, including The Oprah Winfrey Show, The Today Show, NBC Dateline, Food Network's Tyler's Ultimate, Black Enterprise, and The Washington Post.

Mr. Brown was SBA's Washington Metropolitan Area District Office 2006 Small Business Person of the Year.

Highlights of Financial Results

(Dollars in Thousands)

	Unaudited FY 2007	Unaudited FY 2006	% Change 2006 to 2007
AT END OF YEAR			
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 6,095,443	$ 6,653,612	-8.39%
Credit Program Receivables	8,337,462	6,382,126	30.64%
All Other Assets	62,084	62,935	-1.35%
Total Assets	$ 14,494,989	$ 13,098,673	10.66%
Liability for Loan Guaranties	1,737,860	1,630,821	6.56%
Debt with Treasury	11,383,188	9,330,382	22.00%
Downward Reestimate Payable to Treasury	645,826	704,506	-8.33%
All Other Liabilities	325,247	367,463	-11.49%
Total Liabilities	14,092,121	12,033,172	17.11%
Unexpended Appropriations	974,211	1,839,288	-47.03%
Cumulative Results of Operations	(571,343)	(773,787)	26.16%
Total Net Position	402,868	1,065,501	-62.19%
Total Liabilities and Net Position	$ 14,494,989	$ 13,098,673	10.66%
FOR THE YEAR			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Improve Small Business Environment	$ 53,021	$ 42,874	23.67%
Goal 2: Increase Small Business Success			
Loan Subsidy Cost including Reestimates*	(34,144)	(309,633)	88.97%
All Other Cost Net of Revenue	348,034	280,003	24.30%
Goal 3: Restore Homes and Businesses after Disasters			
Loan Subsidy Cost including Reestimates	307,462	848,135	-63.75%
All Other Cost Net of Revenue	318,831	541,415	-41.11%
Costs Not Assigned	67,386	68,925	-2.23%
Total Net Cost of Operations	$ 1,060,590	$ 1,471,719	-27.94%

*Negative Cost due to downward subsidy reestimates that reduce prior loan subsidy costs

	FY 2007	FY 2006	% Change 2006 to 2007
STATEMENT OF NET COST BY EXPENSE TYPE			
Loan Subsidy Cost and Required Annual Reestimates	$ 273,318	$ 538,502	-49.24%
Goal 1 Costs	53,021	42,874	23.67%
Goal 2 Administrative Costs	348,034	280,003	24.30%
Goal 3 Administrative Costs	318,831	541,415	-41.11%
Congressional Initiative Grants	60,435	44,697	35.21%
Other Costs Not Assigned	6,951	24,228	-71.31%
Total Net Cost of Operations	$ 1,060,590	$ 1,471,719	-27.94%
CONDENSED STATEMENT OF NET POSITION			
Beginning Cumulative Results of Operations	$ (773,787)	$ (492,482)	-57.12%
Total Financing Sources	1,263,034	1,190,414	6.10%
Less: Net Cost of Operations	1,060,590	1,471,719	-27.94%
Ending Cumulative Results	(571,343)	(773,787)	26.16%
Beginning Unexpended Appropriations	1,839,288	1,110,131	65.68%
Total Budgetary Financing Sources	(865,077)	729,157	-218.64%
Ending Unexpended Appropriations	974,211	1,839,288	-47.03%
Ending Net Position	$ 402,868	$ 1,065,501	-62.19%
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Net Appropriations & Budget Authority Received, Budgetary	$ 1,164,746	$ 2,774,768	-58.02%
Nonbudgetary Borrowing Authority	2,966,102	12,089,779	-75.47%
Unobligated Balances Forward	7,671,028	6,721,314	14.13%
Other Budgetary Resources, net	183,011	965,521	-81.05%
Total Budgetary Resources	$ 11,984,887	$ 22,551,382	-46.86%
Obligations Incurred, Budgetary	2,296,085	3,130,065	-26.64%
Obligations Incurred, Nonbudgetary	4,387,658	11,750,289	-62.66%
Balances, Available and Unavailable	5,301,144	7,671,028	-30.89%
Total Status of Budgetary Resources	$ 11,984,887	$ 22,551,382	-46.86%

Analysis of SBA's Systems, Controls and Legal Compliance

Internal Control

The Agency believes that maintaining integrity and accountability in all programs and operations is critical for good government; demonstrates responsible stewardship over assets and resources; ensures high-quality, responsible leadership; ensures the effective delivery of services to customers; and maximizes desired program outcomes. The SBA has developed and implemented management, administrative and financial system controls that reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources are used in accordance with the mission of the Agency;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Program and operations activities are in compliance with laws and regulations; and
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

The Federal Managers' Financial Integrity Act of 1982 requires federal agencies to conduct an annual assessment of internal control and report the results to the President. The conclusion of the Administrator's Annual FMFIA assurance statement is based on the self-assessment of the program heads, internal control reviews, and audits and reviews done by the Government Accountability Office and SBA's Office of the Inspector General.

The SBA continues to strengthen and improve the execution of its mission through the application of sound internal controls. During FY 2007, the SBA conducted its second annual assessment of internal control, to comply with the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. The revised A-123 requires the managers of federal agencies to take the responsibility for assessing internal controls over financial reporting similar to that imposed on publicly traded companies by the Public Company Accounting Reform and Investor Protection Act of 2002 (the "Sarbanes-Oxley Act" or "SOX").

The Senior Assessment Team - chaired by the Chief Financial Officer and composed of SBA managers from the major programs and support offices - directed this effort. The SBA reviewed the key business processes impacting financial operations and the financial statements. In addition, the SAT members reviewed some of the business processes with no material impact on the financial statements, but which have some potential for risk or exposure for the Agency. The following five-step process for implementing Appendix A of A-123 was adopted:

- Planning;
- Evaluation of internal control at the Agency level;
- Evaluation of internal control at the process level;
- Testing at the transaction level; and
- Conclusion, reporting, and correction of deficiencies and weaknesses

Based on the evaluation of 17 business processes, 14 of which impacted financial operations, the SBA identified a number of deficiencies, including some in the information systems area. However, only six were categorized as significant deficiencies. These were:

- The controls over SBA information system security;
- The timely review of 7(a) guarantied loans that are in liquidation status or being purchased;
- The monitoring of congressional grants;
- The accuracy of 7(a) guaranty reporting (a finding carried over from FY 2006);
- The reconciliation of payroll records; and
- Missing critical documents in the Disaster payroll personnel files.

These findings have been communicated to the responsible offices for remediation.

Given the size of its $84 billion loan portfolio, SBA's lender and loan monitoring and review activities represent a critical component of the Agency's internal control framework. The Agency's Office of Credit Risk Management rates and ranks lenders who disburse SBA-guarantied loans according to risk. This analysis allows the SBA to focus resources on those lenders who represent the most risk in terms of exposure and credit quality. Larger lenders are subject to on-site reviews. The SBA also conducts reviews of Certified Development

Companies, examinations of Small Business Investment Companies, guarantied loan purchase reviews and reviews of improper payments for business and disaster loans.

In FY 2007, the Agency developed a major training initiative called SBA University. The purpose of the training was to strengthen program and administrative functions, including awareness of and competency in internal control. Over 1,300 SBA employees received hands on classroom style training on core job competencies. The topics were aligned by individual work areas and included material on operations, rules and processes, and regulations and compliance. The training also helped to ensure that adequate internal controls are in place and that staff members understand and follow required procedures.

Audit Follow-up

SBA's OIG conducts audits and reviews of the Agency's operations, and the Office of the Chief Financial Officer works closely with SBA management and the OIG to complete actions necessary to respond to OIG audits. The OCFO tracks the completion of these audit recommendations, as well as responses to OIG Management Challenges, and posts the status of all open OIG recommendations and challenges on SBA's Intranet for managers' information. In addition, the Agency's financial and program internal control has been substantially improved over the years through the remediation of audit recommendations made by the Agency's independent auditor in the annual financial statements audit. Finally, the SBA also considers and responds to recommendations from audits and reviews conducted by the GAO. All GAO audits and reviews are scheduled through the Office of Congressional and Legislative Affairs, which tracks replies to the GAO and Congress. The Agency has addressed a significant number of findings this year:

- The total number of open OIG audit findings was reduced by 30 percent by the end of the year;
- 30 percent of GAO open findings were closed during the second half of the year; and
- Management made improvements in all OIG management challenges.

During FY 2007, the OCFO continued to strengthen the internal control over financial reporting and credit subsidy cost modeling through additional quality assurance procedures for validating loan program data at key points. OCFO developed comprehensive documentation of the quality assurance over accounting data and financial reports, and additional checkpoints were added. In addition, the SBA continued to strengthen its financial management team through continued communication on emerging issues and training activities. As a result the SBA was able to rectify the material weakness condition reported in the financial reporting area in prior year audits. SBA's auditor did not report any material weaknesses in the financial reporting process area in FY 2007.

Legal Compliance

During FY 2007 SBA's auditor reported that the Office of Capital Access was not in compliance with the Debt Collection Improvement Act, which requires agencies to refer outstanding receivables that are delinquent over 180 days to

Treasury for cross-servicing. The OCA was referring loans for Treasury offset but through a coding error was not referring the same loans for cross-servicing. The OCA has corrected the coding error and, as of September 30, 2007, has referred all required loans to Treasury for cross-servicing. A mitigation plan is in place to ensure that this error does not occur in the future.

Information Systems

The SBA continues to have a significant deficiency in the information technology area for security controls. During FY 2007, the SBA made significant efforts to address prior year findings on IT security access controls, taking a multitude of corrective actions. The Office of the Chief Information Officer brought 71 out of 104 OIG recommendations to full closure. The remedial actions undertaken by OCIO include the following: (1) providing enhanced security training; (2) implementing Personally Identifiable Information protection measures (e.g. 2-factor authentication); (3) conducting a comprehensive Agency-wide network topology assessment; (4) instituting increased network vulnerability scanning and management; (5) increasing emergency preparedness and continuity of operations testing; (6) establishing network asset configuration management; (7) establishing an enterprise-wide infrastructure change control board; (8) instituting an Agency-wide policy on end-user computing; and (9) enhancing the segregation of duties procedures. Some of these remedial actions have been completed, and others are in pilot mode. Until full implementation, a reportable condition on access controls still remained for FY 2007.

Summary of Financial Statement Audit

Following, as required by OMB Circular A-136, Section 1.15.6, is the summary of SBA's financial statement audit:

Audit Opinion	Unqualified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls over the Financial Reporting Process	$10,139 million	$0	$10,139 million	N/A	N/A	$0

Management Assurances
FMFIA And FFMIA Assurance Statement For FY 2007

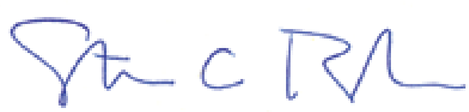
The Small Business Administration continued to strengthen the internal control over its programs and operations during FY 2007. Accountability to our stakeholders and U.S. taxpayers is one of the four pillars of my management philosophy. I am pleased to report that SBA's internal controls at September 30, 2007 are operating effectively.

SBA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers Financial Integrity Act. The SBA conducted its annual assessment of the effectiveness of internal control over the Agency's operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this assessment, the SBA provides reasonable assurance that its control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007 was operating effectively and that no material weaknesses were found in the design or operation of the internal control.

SBA's independent auditor reported a non-compliance with the Debt Collection Improvement Act in the referral of defaulted loans to Treasury for cross servicing. However, corrective actions were taken, and the non-compliance issue has been resolved as of September 30, 2007. Furthermore the SBA has a mitigation plan in place to ensure that this error does not occur in the future.

In addition, SBA's management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The SBA conducted its assessment of the effectiveness of SBA's internal control over financial reporting in accordance with the Appendix A of OMB Circular A-123. Based on the results of this evaluation, the SBA provides reasonable assurance that internal control over financial reporting as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The Federal Financial Management Improvement Act requires federal federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The SBA provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2007.



Steven C. Preston
Administrator
November 14, 2007

Improper Payments

The Improper Payment Information Act of 2002 (IPIA) formalized and updated the previous requirements included in the former Section 57 of Circular A-11 issued by the Office of Management and Budget. Appendix C to Circular A-123 issued by OMB in August 2006 provides additional guidance on agency compliance with IPIA requirements. In addition, OMB Circular A-136 provides guidance on the form and content of IPIA reporting. SBA's improper payment review and reporting is subject to this guidance. As of September 30, 2007 the SBA is rated a "yellow" by OMB on *status* for this President's Management Agenda initiative because the Disaster program improper payment rate exceeded its target in FY 2006 as a result of the volume of Hurricane Katrina transaction processing last year. The SBA is currently on track toward its improper payment objectives, and the OMB has therefore rated the SBA a "green" on *progress* in FY 2007.

SBA's four major credit programs are currently included under IPIA reporting. They are the 7(a) business loan program, the Section 504 Certified Development Company (504) loan program, the Small Business Investment Company (SBIC) program and the Disaster Assistance loan program. SBA's risk assessment of the 504, SBIC and Disaster programs for improper payment indicate a low level of risk, due to the Agency's extensive internal control over these programs, and the FY 2007 results confirmed this assessment. For FY 2007, the SBIC program improper payment rate was 0.16 percent, and the Disaster program improper payment rate was only 0.55 percent which included Gulf Coast hurricanes processing. All SBA IPIA results in FY 2007 were obtained using a testing procedure consistent with OMB guidance. As previously reported to OMB, the 504 program testing was not conducted due to the extensive internal controls and the extremely low likelihood of improper payments in this program.

The SBA considers the 7(a) guaranty purchase process to have a medium risk of improper payments due to the delegation of program authority to SBA's lending partners in this nationwide program. As noted previously, IPIA testing for the 7(a) guaranty purchase process is consistent with OMB guidance. For FY 2007, however, the 7(a) guaranty improper payment rate was only 0.43 percent after a 1.56 percent result in FY 2006. The 7(a) purchase operation includes SBA purchase centers in Herndon, Virginia; Fresno, California; and Little Rock, Arkansas that are centrally managed by staff in Washington, D.C. The SBA tracks the reasons for any improper payments and makes appropriate changes in the purchase operation and oversight procedures to reduce the purchase error rate.

As a result of a change in OMB guidance for this year, the SBA has expanded its improper payment testing program to include 7(a) and 504 loans that have not been defaulted. This expanded testing ensures that loan guaranties only went to eligible small businesses. Although these guaranties have not yet resulted in federal cash outlays, they could possibly do so in the future should the loans default. The result of SBA's testing for both the 7(a) and 504 guaranty programs was a zero percent improper payment rate in FY 2007. SBIC guaranties were already included in the improper payment program, and the Disaster program is a direct lending program, so these programs were not affected this year by the change in OMB's guidance.

Previously the SBA and OMB have discussed the exemption of its low risk programs (504, SBIC and Disaster) from IPIA reporting requirements. The SBA would continue its internal control procedures over improper payments, but would get relief from the extensive IPIA reporting requirement for these low risk programs. Considering the low rate of improper payments in FY 2007, the SBA may apply to OMB for an exemption from IPIA reporting requirements on these three programs during FY 2008.

Other Management Information

The following sections are summary tables of information required by the Office of Management and Budget.

Summary of the President's Management Agenda

The President's Management Agenda www.results.gov,contains five government-wide goals, augmented by agency-specific program goals, to improve federal management and deliver results that matter to the American people. The SBA has three agency-specific goals — Faith-based and Community Initiatives; Eliminating Improper Payments; and Improved Credit Management.

The chart below displays the ratings and describes significant achievements for each PMA goal as of September 30, 2007.

Key to Status and Progress Ratings	
Green G	Success/ Meets Established Standards
Yellow Y	Mixed Result/ Some Standards Not Met
Red R	Unsatisfactory/ Serious Flaws Present
↑	Improved During FY 2007
↓	Declined During FY 2007

	Status	Progress
Human Capital		
In FY 2007 the SBA continued work towards achieving a Green rating for status as well as progress. The SBA revised its Strategic Human Capital Plan to align with the Agency's Strategic Plan and completed assessment of leadership performance competencies.	Yellow Y	Green G
Competitive Sourcing		
The SBA dropped to yellow in status and progress on competitive sourcing in 2007. The Agency is planning for increased competition in 2008.	Yellow ↓ Y	Yellow ↓ Y
Improved Financial Performance		
In FY 2007 the SBA received a clean annual audit report and met reporting deadlines. The Agency completed action on audit remediation and financial initiatives. In addition, the Agency is working to expand the use of financial information to inform decision making.	Yellow ↑ Y	Green G
Electronic Government		
The SBA is working to improve electronic government through certifying compliance with policies to protect personally identifiable information. The Agency has improved its enterprise architecture and system security, and continues to implement e-government applications.	Yellow ↓ Y	Yellow ↓ Y
Improved Program Performance		
In FY 2007 the SBA maintained a solid Green for status and progress on this initiative. All SBA programs have at least one efficiency measure; marginal costs were calculated for major programs and used for setting goals for the FY 2009 OMB budget submission.	Green G	Green G
Faith-Based and Community Initiatives		
In FY 2007 the SBA developed and began implementing a comprehensive outreach and technical assistance strategy for this initiative. The Agency incorporated faith-based partners into its disaster response plan.	Yellow ↑ Y	Green G
Eliminating Improper Payments		
Error rates for all SBA programs have historically been very low. FY 2007 is the first year that the SBA is reporting on 7(a) and 504 Certified Development Companies, and SBIC Debentures guaranteed loan programs. The SBA has developed reporting procedures and recovery targets for these programs.	Yellow ↓ Y	Green G
Improved Credit Management		
Improved Credit Management was established as a new initiative in FY 2006. The SBA met its 2007 milestones for this initiative and is working to provide analysis of major loan program portfolio risk indicators.	Red R	Green ↑ G

Summary of the Program Assessment Rating Tool (PART) Status

The Office of Management and Budget uses the Program Assessment Rating Tool to assess federal programs. The PART represents a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. PART results are then used to inform the budget process and improve program management to ensure the most effective and efficient use of taxpayer dollars. Rating results are classified into one of five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

To date, the SBA, in conjunction with OMB, has initiated ten formal PART assessments for SBA's programs.

Program	Year of Most Recent PART	Status
SCORE	2004	Moderately Effective
SBDC	2004	Moderately Effective
Disaster Assistance	2004	Effective
8(a) Program	2005	Adequate
HUBZone	2005	Moderately Effective
Surety Bonds	2005	Adequate
WBC	2006	Moderately Effective
504 loans	2007	Moderately Effective
7(a) loans	2007	Moderately Effective
SBIC Program	2007	Moderately Effective

Additional information on the PART reviews is presented in Appendix 6. Please go to www.ExpectMore.gov for detailed information on the status of improvement plans.

Success Story

Law Offices of Kyra M. Raimey, LLC

A Wealth of Expertise is Just a Phone Call Away With SBA

After working in downtown Cincinnati, Ohio for an environmental corporate law firm, attorney Kyra Raimey decided to go into business for herself. She realized she had a passion for family and labor law and wanted to strike out on her own. And that's exactly what she did. The U.S. Small Business Administration office in Cincinnati put her in touch with the Greater Cincinnati SCORE chapter (an SBA resource) for help with obtaining a loan for the creation of her firm, Law Offices of Kyra M. Raimey, LLC.

Kyra began meeting with SCORE Counselor Brien Hope at a local book store, as well as the chapter office, to discuss her new business. Brien reviewed her business plan and helped her through the loan process. This led to Kyra obtaining an SBA guarantied loan to help pay for start-up costs. Brien also worked with Kyra on her marketing strategies. Kyra remembers, "some of the ideas we discussed included creating an information card about my business to give to other attorneys, contacting the local bar association for referrals, scheduling speaking engagements, and identifying business columnists who could write a story about my business. Brien stressed meeting with other professionals to network as a way to get clients," she says, and adds, "it was great having the advice of someone who knows the business world."

Kyra already is looking to the future expansion of her business. She plans to move to a larger office in a more accessible location and add more staff. She hopes to someday become a judge—a very likely outcome considering her already impressive ride to success. In 2005, Kyra was named a "Rising Star" Family Law Attorney by Ohio Super Lawyer and Cincinnati Magazine.

For Kyra, the future is bright. If there is ever anything she needs or wishes to explore, she knows that SCORE is there to help. "The fact that a wealth of knowledge and expertise is just a phone call away is very comforting," she says.

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