U.S. Small Business Administration

SBA

Your Small Business Resource

PERFORMANCE AND FINANCIAL HIGHLIGHTS
FISCAL YEAR 2007

FOREWORD

For FY 2007 reporting, the SBA is participating in an OMB-sponsored pilot program that splits performance reporting into three sections – an Agency Financial Report, an Annual Performance Report and a highlights report. The purpose is to offer an enhanced presentation of financial and performance information that is more meaningful and transparent to the public and to SBA's clients.

This FY 2007 Performance and Financial HIGHLIGHTS report summarizes key performance, budget and financial information in a brief, user-friendly format.

The Agency Financial Report, with detailed financial information, was released on November 15, 2007. The Annual Performance Report contains FY 2007 annual performance information and is included in the FY 2009 Congressional Budget Submission, released on February 4, 2008.

Information about all SBA programs is available at:
http://www.sba.gov

Para información acerca de los programas de la SBA:
http://www.negocios.gov

SBA's plans and reports are available at:
http://www.sba.gov/aboutsba/budgetsplans/index.html

Additional information about SBA's program and financial performance can be found at:
http://www.ExpectMore.gov **http://www.urban.org/projects/sba/**

Requests for printed copies, or questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to:
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In recognition of your outstanding efforts in preparing the Small Business Administration

PERFORMANCE AND ACCOUNTABILITY REPORT

for the fiscal year ended September 30, 2006

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Attached CD - Supplementary Information

SI 1 — FY 2007 Agency Financial Report

SI 2 — FY 2009 Congressional Budget Submission and FY 2007 Annual Performance Report

SI 3 — Strategic Plan FY 2006 – FY 2011

SI 4 — Strategic Plan FY 2008 – FY 2013

SI 5 — Glossary of Acronyms and Abbreviations

SI 6 — Performance and Financial HIGHLIGHTS FY 2007

MESSAGE FROM THE ADMINISTRATOR

SBA's MISSION

The mission of the SBA 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.

I am pleased to present the U.S. Small Business Administration's FY 2007 Performance and Financial HIGHLIGHTS report, which contains summary financial and performance information for FY 2007. Over the past year the Agency made tremendous strides toward becoming a more effective service organization for America's small businesses and disaster victims, a better place for employees to serve, and a more efficient and accountable Agency. That is vital because our mission is so critical to the strength of the nation: helping small businesses start, thrive and grow, and assisting victims of disasters to recover. It is in this spirit of continually improving our performance that I submit this report.

The report describes the Agency's achievements and challenges as it seeks to expand the opportunities for small businesses and assist in the economic recovery of communities after disasters. It also highlights our efforts to manage taxpayer dollars responsibly and ensure that the Agency is making capital, management and procurement assistance available to those who need it most.

SBA's program results were strong for FY 2007. The Agency funded more loans through its Section 7(a) and 504 loan guaranty programs than ever before. Almost 1.1 million small businesses received counseling and training from SBA's resource partners – the Small Business Development Centers, Women's Business Centers and SCORE. The Disaster program provided almost $1.7 billion in loans to help the nation's disaster victims recover. Our accomplishments in FY 2007 enabled the Agency to more effectively foster small business ownership and help people quickly get back on their feet after disasters.

Over the past year, the SBA also renewed its dedication to core operations. As a financial institution with an $85 billion loan portfolio, the principles of stewardship, transparency and accountability are essential to the integrity of SBA's programs and operations. Ensuring that proper controls are in place and that employees are adequately trained have been key priorities. These steps are crucial to improving program effectiveness and customer service.

I was appointed to be the SBA Administrator just over a year and a half ago. Since then I have had the opportunity to meet thousands of small business owners, Agency employees and resource partners, including lenders, counselors and investors. I have been deeply impressed by the commitment and sense of mission among both our people and our partners. These meetings have confirmed my belief that the spirit of the entrepreneur is the essence of our nation's economic greatness, and their accomplishments are its reflection. I am honored to serve America's small businesses and my partners at the SBA, and I look forward to reporting our progress to you next year.

Sincerely,

Steven C. Preston
February 4, 2008

Executive Summary

The SBA promotes 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 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 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.The total outstanding balance of SBA's loan portfolio, including the unguarantied loan portion, was $85 billion, an increase of 8 percent above FY 2006. SBA's loan portfolio has increased 59 percent since FY 2001. The Agency's portfolio of loans receivable has 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 the 2005 Gulf Coast hurricanes. More than 99 percent of the loans made to victims of these hurricanes have had disbursements.

This year the SBA 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 not a material weakness but is still considered an area of significant deficiency.

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 2005 Gulf Coast hurricanes.

Program Results and Evaluation

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.

In 2007 the Urban Institute completed an assessment of the SBA's small business lending programs. The studies found that SBA backed almost 19 percent of all commercial small business lending greater than one year in maturity over the period analyzed, 2001-2004. The Urban Institute found that SBA programs are more effective than conventional lenders in reaching minorities, women and start-ups, and that SBA loans are a key financing tool for those creditworthy small businesses overlooked by the commercial lending market. The findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit elsewhere" and that there is little overlap between SBA and conventional lending. It appears that commercial lenders use SBA guaranties to support borrowers who are creditworthy but have not received financing by lenders because they can not meet conventional underwriting standards. The seven Urban Institute studies are available at http://www.urban.org/projects/sba.

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

The SBA supports other federal agencies in meeting their statutory goals 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 approximately 1.1 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners: Small Business Development Centers, 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; "red" on one, Improved Credit Management; and "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 Office of Management and Budget's 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 was rated "green" for *progress* and *status* on Improved Financial Performance in the first quarter of FY 2008.

On September 30, 2007 the SBA released its revised strategic plan for FY 2008 – FY 2013. Data reported in this Performance and Financial HIGHLIGHTS document 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, should help improve program results and ensure that relevant staff members understand internal controls and follow required procedures. An indicator of measurable results of this training was the progress demonstrated in the 2007 government-wide employee survey administered by the Office of Personnel Management. On 28 of 37 questions, employees gave the Agency its highest scores since the federal government began surveying employees in 2002. Three general areas of improved satisfaction were training and development, leadership, and internal communications.

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	336,411
SBDC	Number Small Businesses Assisted	725,799	706,501	667,660	600,665
WBC	Number Small Businesses Assisted	122,712	144,316	129,373	146,828
District Offices Counseling & Training	Number Small Businesses Assisted	329,270	409,276	315,665	348,855
Procurement Assistance					
Prime Contracting (7)	Annual Value of Federal Contracts ($Billion)	$ 69	$ 75	$ 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 (8)	Regulatory Cost Savings ($Million)	$ 17,054	$ 6,600	$ 7,250	$ 2,600

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(1) Value of loans funded includes 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) The FY 2005 accomplishment was revised down to $75B from the previously reported $80B as a result of a government-wide effort to improve the quality of reported data.

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

N/A - Not Available

HISTORY AND ORGANIZATION

History

Congress created the U.S. Small Business Administration in 1953 to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.” The charter stipulated that the SBA would ensure small businesses a “fair proportion” of government contracts and sales of surplus property. 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.

Organization by Key Assistance Areas

The SBA is an organization with a nationwide presence. The headquarters is located in Washington, D.C., while 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, Management Assistance, Procurement Assistance, Disaster Assistance and Regulatory Assistance. Following are brief descriptions.

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. The office is also responsible for the Surety Bond Guarantee and International Trade Assistance programs.

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, a nationwide organization of volunteers who provide counseling and mentoring. The office also provides online training through the Small Business Training Network accessible at www.sba.gov/training. In addition, district offices provide counseling and training that complement the assistance provided by SBA’s partners.

Procurement Assistance

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

Disaster Assistance

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

Regulatory Assistance

The Office of Advocacy provides an independent voice within the federal government for small businesses to advance their views, concerns and interests before Congress, the federal government, federal courts and state policymakers.

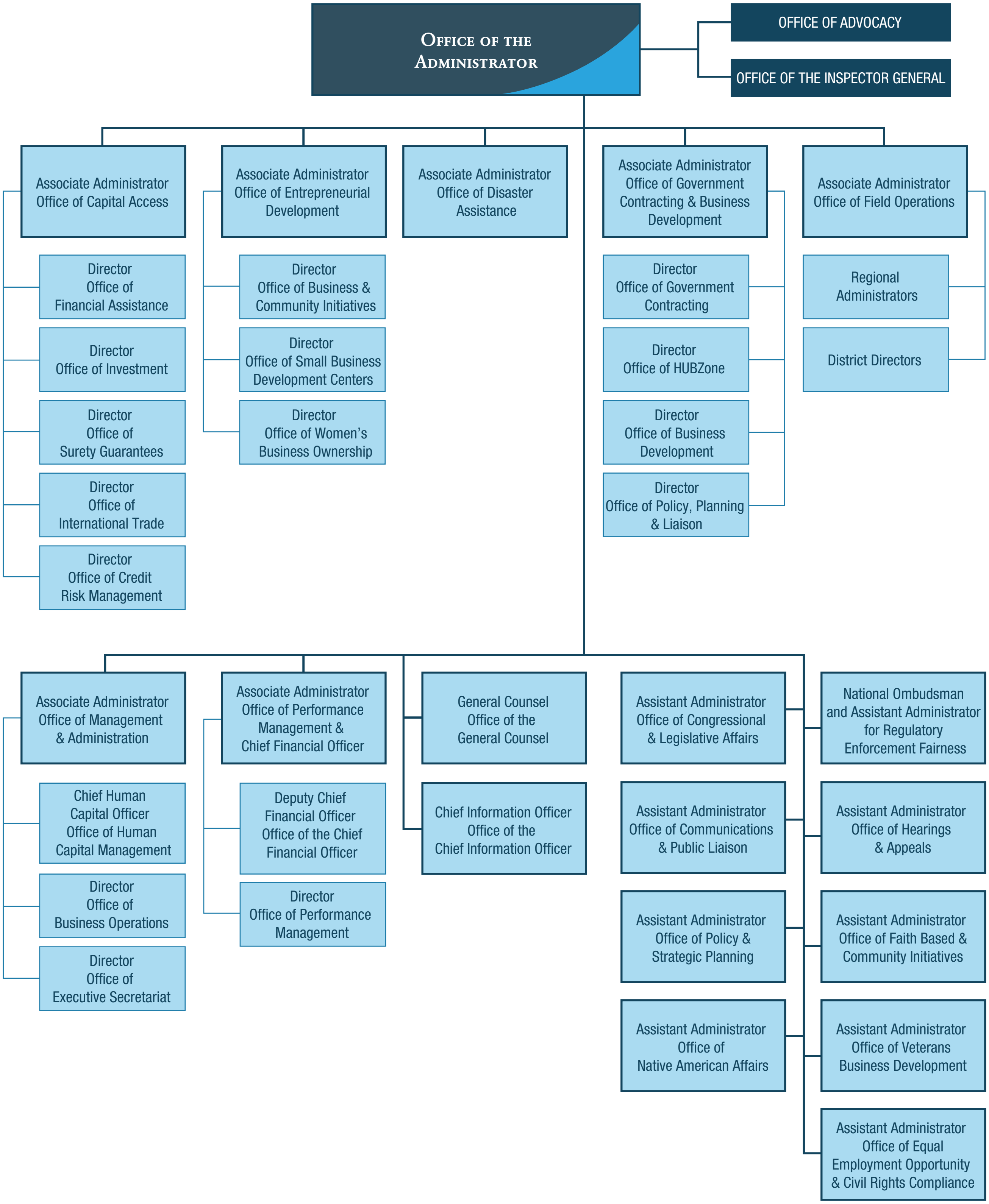
The Office of the National Ombudsman receives complaints and comments from small businesses that feel they have experienced unfair or excessive regulatory enforcement actions by federal agencies.

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 assistance to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa.

Organizational Chart



PERFORMANCE GOALS, OBJECTIVES AND 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. First, the SBA aims to improve 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.

Performance Indicators – Following are three types of indicators that measure performance, and their definitions:

- Outcome – 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.
- Output – 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 – 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.

Program Manager Rating of the Data Quality for Each Performance Indicator

Program offices are responsible for the quality of data that they provide for reporting. Data quality has the following characteristics:

- Valid – The indicator is relevant to program; steps were taken to assure that the data is complete; the data covers the entire fiscal year and; the indicator can be used by decision makers to manage the program.
- Verifiable – Documentation is maintained that allows an independent third party review to conclude that the results are accurately reported.

Accordingly, program managers rate the data quality for each indicator confirming that the data quality is high or disclose any known or suspected weaknesses. Data quality rated:

- High – Has no known weaknesses; accurately represents the results of the program; and may be independently verified.
- Medium – Has some known or suspected weaknesses but is of sufficient quality to manage and/or represent the program results and may be independently verified.
- Low – Has significant weaknesses and cannot be used to manage or represent the results of the program. The SBA does not use indicators whose data quality is below medium.

At the end of FY 2007, as a participant in an OMB alternative reporting *pilot*, the SBA issued its Agency Financial Report. The AFR concentrated on the financial statements and the associated audit; performance and budget information was minimally covered. In its FY 2009 Congressional Budget Submission, the SBA concentrates on budget and performance information; financial information is not addressed. The only document in which the SBA includes budget, financial and performance information is this HIGHLIGHTS report. By putting the budget information in perspective with performance and financial data, the reader can get a better picture of the SBA.

Performance Information Collection and Validation – Managing for results 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 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.

Strategic Goal Structure[1]

Following are SBA's four strategic goals and the long-term objectives to accomplish each strategic goal.

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 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 the 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 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 Results

In FY 2007, the SBA collected performance results across all programs. The SBA currently tracks 85 indicators that measure performance. The following information can help the reader draw general conclusions regarding SBA's performance measures — first, that there are a good mix of outputs, outcomes and efficiency indicators; second, that only 14 percent of the indicators were significantly below target; and, third, that 21 percent of the indicators were baselined. Baselining indicates that programs were reviewed and new "key" indicators were identified. *(For more detailed information, including trend data from FY 2004 through FY 2009; FY 2007 Goals vs. FY 2007 Actuals; justifications for data variance; listing of discontinued indicators; and FY 2007 narrative of each program's accomplishments, see the attached CD, SI 2, FY 2009 Congressional Budget Submission.)*

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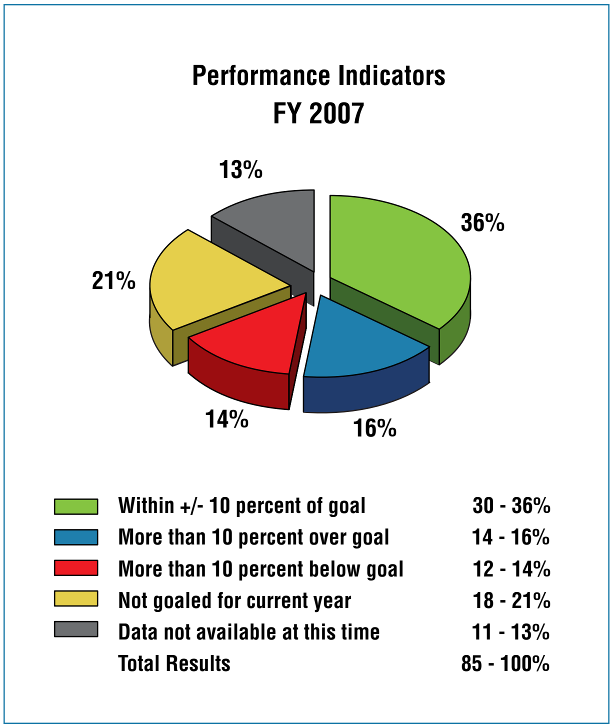
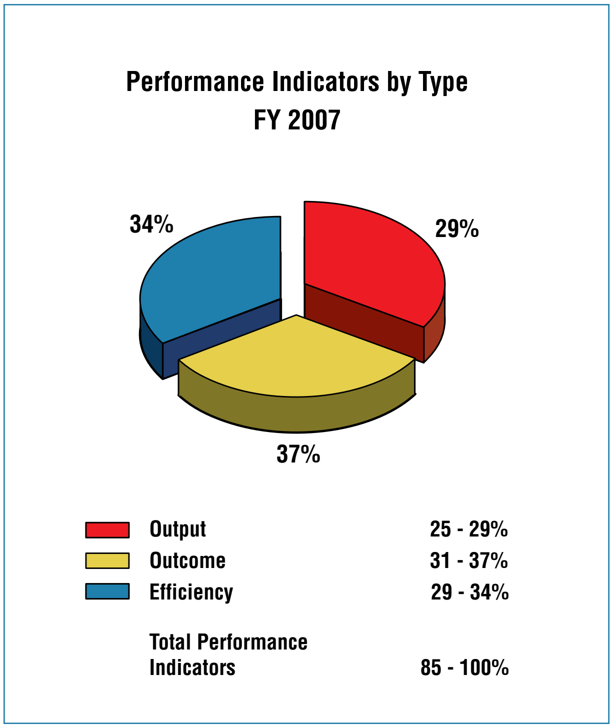
[1] The strategic goal structure described here reflects the FY 2006 – FY 2011 Strategic Plan in effect during FY 2007. On October 1, 2007, the SBA issued a revised Strategic Plan covering FY 2008 – FY 2013. Both strategic plans are on the CD that accompanies this report.

The following charts show FY 2007 performance results[2] for all output and outcome performance indicators and for efficiency measures. Results are organized by strategic goal, type of assistance and program.

Small Business Administration FY 2007 Performance Results



🟩	Within +/- 10 percent of goal	30 - 36%
🟦	More than 10 percent over goal	14 - 16%
🟥	More than 10 percent below goal	12 - 14%
🟨	Not goaled for current year	18 - 21%
⬛	Data not available at this time	11 - 13%
	Total Results	85 - 100%



🟥	Output	25 - 29%
🟨	Outcome	31 - 37%
🟦	Efficiency	29 - 34%
	Total Performance Indicators	85 - 100%

Did you know

A 2007 study by the Urban Institute found that average sales and employment increased over time for SBA-financed businesses. Three years after receiving SBA financing, small businesses receiving 7(a) and 504 loans showed increases in employment of 31 and 35 percent respectively, and showed 42 and 44 percent increases in sales.

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[2] On target, “green,” means that the goal has been met. If the result is above target, “blue,” this may indicate special circumstances that are noted, or it may indicate that the goal may have been set too low. Below target, “red,” indicates that the goal was not met. N/A indicators “grey” occur because the data was not available at the time of collection. Baseline “yellow” means that it is a new indicator that requires a baseline to be established before goaling for the out years, and could not be goaled for the current year.

SBA's 85 performance indicators are listed below and are presented along with their type (output, outcome, or efficiency); the FY 2007 results (whether they were on, below or above target); and their data quality (high or medium). *(Detailed information is available on the attached CD.)*

Small Business Administration

FY 2007 Performance Results

Program	Performance Indicator	Type	FY 2007 Results	Data Quality
STRATEGIC GOAL 1 – Expand America's ownership society, particularly in underserved areas				
Financial Assistance				
7(a)	Loans Funded (#)	Output	**Green**	High
7(a)	Small Businesses Assisted (#)	Output	**Green**	High
7(a)	Underserved Markets - Loans Funded (#)	Output	Baseline	High
7(a)	Underserved Markets - Small Businesses Assisted (#)	Output	Baseline	High
7(a)	Cost of Loans Funded ($)	Efficiency	**Green**	High
7(a)	Cost of Small Businesses Assisted ($)	Efficiency	**Green**	High
504	Small Business Loans Funded (#)	Output	**Green**	High
504	Small Businesses Assisted (#)	Output	**Green**	High
504	Underserved Markets* - Small Business Loans Funded (#)	Output	Baseline	High
504	Underserved Markets - Small Businesses Assisted (#)	Output	Baseline	High
504	Cost of Small Business Loans Funded ($)	Efficiency	**Green**	High
504	Cost of Small Businesses Assisted ($)	Efficiency	**Green**	High
International Trade	Loans Funded (#)	Output	**Green**	Medium
International Trade	Small Businesses Assisted (#)	Outcome	**Green**	Medium
International Trade	Underserved markets assisted (#)	Outcome	Baseline	Medium
International Trade	Cost Per Loan Funded ($)	Efficiency	**Red**	Medium
International Trade	Cost Per Small Business Assisted ($)	Efficiency	**Red**	Medium
Microloan	Small Businesses Assisted (#)	Outcome	N/A (1)	Medium
Microloan	Loans Funded ($)	Output	N/A (1)	Medium
Microloan	Cost Per Small Business Assisted ($)	Efficiency	N/A (1)	Medium
Microloan	Cost Per Loan Funded ($)	Efficiency	N/A (1)	Medium
SBIC	Small Businesses Assisted (#)	Outcome	**Green**	High
SBIC	Underserved Markets - Small Businesses Assisted (#)	Outcome	Baseline	High
SBIC	Cost Per Small Business Assisted ($)	Efficiency	**Green**	High
Management and Technical Assistance				
SBDC	Long-term Clients Counseled (#)	Output	Baseline	Medium
SBDC	Capital Infusion ($ Billion)	Outcome	Baseline	Medium
SBDC	Small Businesses Created (#)	Outcome	Baseline	Medium
SBDC	Cost Per Small Business Created ($)	Efficiency	Baseline	Medium
SBDC	Cost Per Long-term Client Counseled ($)	Efficiency	Baseline	Medium
WBC	Small Businesses Assisted (#)	Output	**Blue**	High
WBC	Jobs Created/Retained (#)	Outcome	N/A (1)	Medium
WBC	Small Businesses Created (#)	Outcome	Baseline	Medium
WBC	Cost Per Small Business Assisted ($)	Efficiency	**Green**	High
WBC	Cost Per Job Created/Retained ($)	Efficiency	N/A (1)	High

Table continued on next page

Small Business Administration
FY 2007 Performance Results

Program	Performance Indicator	Type	FY 2007 Results	Data Quality
SCORE	Small Businesses Assisted (#)	Output	Green	Medium
SCORE	Small Businesses Created (#)	Outcome	Baseline	Medium
SCORE	Cost Per Small Businesses Assisted ($)	Efficiency	Blue	Medium
DFWP	Small Businesses Educated (#)	Output	Blue	Medium
DFWP	Programs Implemented (#)	Output	Blue	Medium
DFWP	Cost Per Small Business Educated ($)	Efficiency	Blue	Medium
Contracting Assistance				
7(j)	Small Businesses Assisted (#)	Output	Blue	High
7(j)	Cost Per Small Business Assisted ($)	Efficiency	Green	High
8(a)	Small Businesses Assisted (#)	Outcome	Green	High
8(a)	Cost Per Small Business Assisted ($)	Efficiency	Green	Medium
HUBZone	Small Businesses Assisted (#)	Outcomes	Green	High
HUBZone	Annual Value of Federal Contracts ($ Billion)	Outcomes	N/A (1)	Medium
HUBZone	Cost Per Small Business Assisted ($)	Efficiency	Blue	High
HUBZone	Cost per Federal Contract Dollar ($)	Efficiency	N/A (1)	Medium
SBG	Total Bid Bonds (#)	Output	Baseline	Medium
SBG	Final Surety Bond Guaranties (#)	Output	Green	High
SBG	Underserved Markets - Final Surety Bond Guaranties (#)	Output	Baseline	Medium
SBG	Cost of Final Surety Bond Guaranties ($)	Efficiency	Green	High
SBG	Cost of Total Bid Bonds ($)	Efficiency	Baseline	Medium
Prime Contracting	Number of Federal Contract Dollars Awarded to Small Businesses ($ Billion)	Output	N/A (1)	Medium
Prime Contracting	Jobs Created/Retained (#)	Outcomes	N/A (1)	Medium
Prime Contracting	Cost Per Job Created/Retained ($)	Efficiency	N/A (1)	Medium
SDB	Small Businesses Certified (#)	Output	Red	High
SDB	Cost Per Small Business Certified ($)	Efficiency	Red	High
District Offices Support - All Assistance Areas				
OFO/8(a)	Annual 8(a) Reviews (%)	Output	Green	High
OFO/DO C&T	Small Businesses Assisted - Counseling and Training (#)	Outcome	Blue	High
OFO/DO C&T	Cost Per Small Business Assisted - C&T ($)	Efficiency	Blue	High
STRATEGIC GOAL 2 – Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster				
Disaster Assistance				
Disaster	Small Businesses Sustaining Economic Injury That Remain Operational 6 Months After Final Disbursement (%)	Outcome	Red	High
Disaster	Small Businesses Sustaining Physical Damage Restored Within 6 Months after Final Disbursement (%)	Outcome	Green	High
Disaster	Homeowners Restoring Their Homes Within 6 Months of Final Disbursement (%)	Outcome	Red	High
Disaster	Renters Restored Within 6 Months after Final Disbursement (%)	Outcome	Red	High
Disaster	Customer Satisfaction Rate (%)	Outcome	Green	High
Disaster	Disasters Having Field Presence Within 3 Days (%)	Output	Green	High
Disaster	Loans with Initial Disbursements Within 5 Days of Loan Closing (%)	Output	Green	High

Table continued on next page

Small Business Administration
FY 2007 Performance Results

Program	Performance Indicator	Type	FY 2007 Results	Data Quality
Disaster	Time to Process 85% of Home Applications (Days)	Efficiency	Blue	High
Disaster	Time to Process 85% of Business Physical Applications (Days)	Efficiency	Blue	High
Disaster	Time to Process 85% of EIDL Applications (Days)	Efficiency	Blue	High
STRATEGIC GOAL 3 – Improve the economic environment for small business				
Regulatory Assistance				
Advocacy	Regulatory Cost Savings to Small Businesses ($ Billion)	Outcome	Red	Medium
Advocacy	Research Publications (#)	Output	Blue	High
Advocacy	Regulatory Agencies with In-House RFA Expertise (#)	Output	Red	High
Advocacy	States Formally Considering Legislative or Executive Action (#)	Output	Blue	High
Advocacy	Research Publications and Data Reports in Curricula (#)	Output	Green	High
Advocacy	Cost Per $1 Million Savings ($)	Efficiency	Red	High
Business Gateway	Hours Saved (# in Millions)	Outcome	Red	High
Business Gateway	Customer Satisfaction (%)	Outcome	Green	High
Business Gateway	Referrals to Partner Sites Per Month (%)	Outcome	Green	High
Business Gateway	Cost Per Hours Saved ($)	Efficiency	Red	High
STRATEGIC GOAL 4 – Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls				
Ensure Management Excellence				
OCIO	IT Systems Availability	Output	Baseline	High
OCIO	Unauthorized Network or Data Breaches	Outcomes	Baseline	High
OCFO	Unqualified Opinions for Audit Year	Outcomes	Green	High
OCFO	Number of Material Weaknesses	Outcomes	Green	High

* Underserved markets represent small businesses in low to moderate income areas, HUBZones and Empowerment Zone/Enterprise Communities.

N/A (1) Information not available until end of 2nd Quarter, FY 2008.

Success Story

Native Angels Home Care and Hospice
2007 National Small Business of the Year

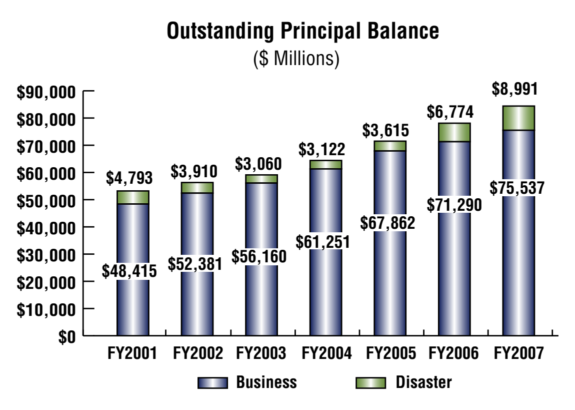
A pair of Native American sisters from Lumberton, N.C., who dreamt of turning their health care experience into a thriving homegrown business – Bobbie Jacobs-Ghaffar and Lesa Jacobs – were named *National Small Business Persons of the Year* during ceremonies at the U.S. Small Business Administration's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

Loan Portfolio Analysis

The SBA is the taxpayers' custodian of a loan portfolio of $85 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.

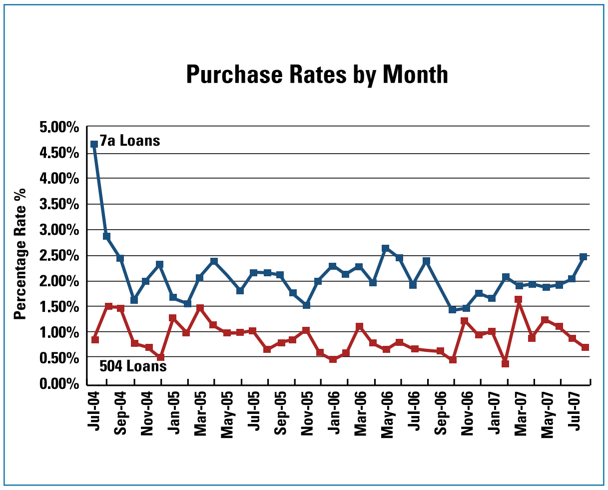
To ensure SBA's good stewardship of a portfolio of this size, the Agency's Office of Credit Risk Management has a state-of-the-art Loan and Lender Monitoring System that incorporates credit scoring metrics for portfolio management to track and monitor the risk in its two main business loan programs – 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.


Outstanding Principal Balance
($ Millions)

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.

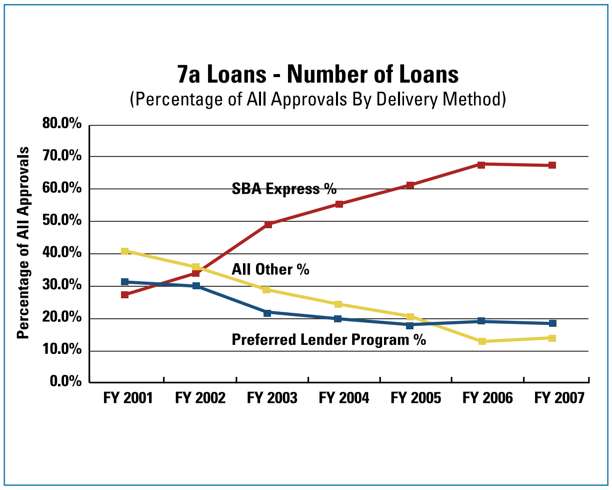
Did you know

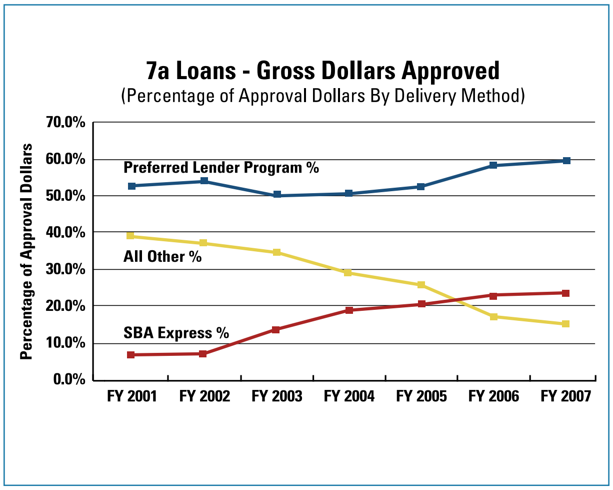
A 2007 study by the Urban Institute found that SBA programs are more effective than conventional lenders in reaching minorities, women and start-ups, and that SBA loans are a key financing tool for those creditworthy small businesses overlooked by the commercial lending market.



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 FY 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.





Did you know

http://www.Business.gov is a one-stop web site for federal compliance resources, and provides information on starting, growing and managing a small business.

ANALYSIS OF BUDGETARY RESOURCES

Reconciliation of Performance Budgetary Resources with Costs in the Financial Statements

The SBA reports its budgetary obligations incurred to accomplish the Agency's strategic objectives along with the performance results for these objectives. These strategic resources include credit subsidy obligations for loan approvals made in SBA's business and Disaster programs during FY 2007. In assessing performance results, the SBA does not include credit subsidy obligations determined during FY 2007 to be applicable to prior year loan approvals. The Combined Statement of Budgetary Resources[3] includes administrative expenses in both SBA's program and salaries and expense funds because interagency transactions are not eliminated. The interagency transactions have been eliminated in the reconciliation shown here to allocate net resources obligated to performance objectives.

As a result of the adjustments detailed here, resources reported for strategic goals include administrative expenses, primarily employee salaries and benefits and grant programs to assist small businesses, and obligations for the credit subsidy cost relating to loans approved during FY 2007.

The following table shows the reconciliation of the Budgetary Resources to Achieve Results with obligations incurred in the Combined Statement of Budgetary Resources.

As indicated in the table, $1 billion in budgetary resources was used by the SBA during FY 2007. The complete Budgetary Resources to Achieve Results table on the following page shows how those resources are allocated by strategic goal and program. Also shown are SBA's overhead costs as related to Strategic Goal 4, which deals with the administration of the SBA and other collateral support services.

(Dollars in Thousands)

	FY 2007	
TOTAL BUDGETARY OBLIGATIONS REPORTED		$ 6,683,743
Obligations incurred in nonbudgetary loan financing funds [4]		(4,387,659)
Available Budgetary Resources		$ 2,296,084
Credit subsidy reestimates for prior year approvals – Business [5]	(406,111)	
Credit subsidy reestimates for prior year approvals - Disaster [5]	(290,307)	
Intra-Agency transfers of Administration funds[5]	(532,461)	
Other program obligations (SBG, loan liquidating funds, CAIP fees) [5]	(16,414)	
Obligations not related to strategic goals (OIG, RBIP) [5]	(20,963)	
Budgetary resources not included [5]		(1,266,256)
Budgetary Resources to Achieve Results		**$ 1,029,828**

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[3] The complete table, Combined Statement of Budgetary Resources, and all other FY 2007 Financial Statements can be found in the full AFR located in the CD that accompanies this HIGHLIGHTS report.

[4] Nonbudgetary loan financing funds incur obligations in loan program operation. These are off-budget funds that do not reflect the true costs of the programs and are not included in the Performance Budget Resources.

[5] Performance Budget Resources do not include obligations for reestimates (relate to prior year loans), intra-agency transfer of administrative funds (SBR is combined and does not reflect eliminations) and other obligations.

FY 2007 Budgetary Resources to Achieve Results

(Dollars in Thousands)

STRATEGIC GOAL 1 - Improve the economic environment for small business		**$ 49,677**
Regulatory Assistance		
Advocacy	$ 9,858	
National Ombudsman	1, 257	
Business Gateway	10,660	
Contracting Assistance		
Prime Contracting	$ 19,842	
Subcontracting	2,985	
Small Disadvantaged Businesses	1,235	
Procurement Matchmaking	3,840	
STRATEGIC GOAL 2 - Increase small business success by bridging competitive opportunity gaps facing entrepreneurs		**$ 366,326**
Financial Assistance		
7(a) Loans	$ 71,387	
504 Loans	24,915	
Small Business Investment Companies	15,749	
Microloan Program	17,294	
International Trade Promotion	5,258	
New Markets Venture Capital	210	
Prime Technical Assistance	1,863	
Management Assistance		
SCORE	$ 9,799	
Small Business Development Centers	101,241	
Small Business Technical Training	410	
Women's Business Ownership	20,432	
Drug Free Workplace	849	
National Women's Business Council	940	
Native American Outreach	1,415	
Veterans Business Development	4,181	
Field Office - Counseling, Training & Information	32,159	
Contracting Assistance		
8(a) Program	$ 41,191	
HUBZone	6,767	
Surety Bond Guarantee Program	6,926	
7(j) Program	3,340	
STRATEGIC GOAL 3 - Restore homes and businesses affected by disasters		**$ 613,825**
Disaster Assistance	$ 613,825	
Total Budgetary Resources		**$ 1,029,828**

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

(These budgetary resources are treated as Overhead and have been allocated to Strategic Goals 1-3).

Overhead	
General Planning and Management	$ 43,056
Information Technology Management	33,635
Procurement and Contracting Services	15,340
Improved Financial Performance	11,871
Budget and Performance Integration	2,493
Competitive Sourcing	196
E-Government	3,550
Human Capital Management	1,288
Improper Payments	13
Total Budgetary Resources allocated to Strategic Goals 1-3	$ 111,442

ANALYSIS OF FINANCIAL DATA

Highlights of Financial Results

(Dollars in Thousands)

	Unaudited		% Change
AT END OF YEAR	**FY 2007**	**FY 2006**	**2006 to 2007**
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 Guarantees	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			
Strategic Goal 1: Improve Small Business Environment	$ 53,021	$ 42,874	23.67%
Strategic 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%
Strategic 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			
STATEMENT OF NET COST BY EXPENSE TYPE			
Loan Subsidy Cost and Required Annual Reestimates	$ 273,318	$ 538,502	-49.24%
Strategic Goal 1 Costs	53,021	42,874	23.67%
Strategic Goal 2 Administrative Costs	348,034	280,003	24.30%
Strategic 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%

(continued next page)

Highlights of Financial Results

(continued from previous page)

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 Financial Statements

The SBA prepares its financial statements as a critical aspect of ensuring accountability and stewardship of its public resources. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. The complete Financial Statements for FY 2007 can be found in the AFR which is included in the accompanying CD.

Background

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 SBA'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 $54.6 billion guaranteed as of September 30, 2006. The 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 in FY 2007, an increase of 31 percent over the previous fiscal year. This increase is due to the disbursement of an unprecedented volume of disaster loans to the victims of the 2005 Gulf Coast hurricanes. 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 the Treasury, credit program receivables, liabilities for loan guaranties and debt with the Treasury. Loans and loan 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 the guarantied 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 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 FY 2006. Liabilities consist primarily of Liability for Loan Guaranties and Debt with Treasury. 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 defaulted guarantied loans. 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 Agency's inception. The loss shown as Cumulative Results of Operations decreased due to decreased unfunded upward subsidy reestimates, from $773.8 million as of September 30, 2006 to $571.3 million as of 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 is year-end reestimates which are funded in the following year. Unexpended Appropriations decreased $865.1 million from FY 2006 to FY 2007. The reason for the decrease is that in FY 2007 the appropriations used/expenditures were greater than the appropriations received. This is due to the expenditure activity offset against the unobligated balance carried forward from FY 2006 and prior year recoveries. The Disaster program is the primary component of the unobligated balance carried forward.

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 the 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.

Strategic Goal 3 *(Restore homes and businesses affected by disaster)* includes a net downward reestimate for FY 2007 in the Disaster program. The Disaster program had relatively minor reestimates with the exception of the FY 2005 and FY 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 figures also reflect 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 were 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. The reduction is related to the approvals for Gulf Coast hurricane victim disaster loans and the associated decrease in borrowing authority for FY 2007. 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.

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Internal Control

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. It 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 Agency 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 control. During FY 2007 the SBA conducted its second annual assessment of internal control to comply with OMB's revised Circular 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 control over financial reporting similar to that imposed on publicly traded companies by the Public Company Accounting Reform and Investor Protection Act of 2002.

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 team members reviewed some of the business processes that have no material impact on the financial statements, but have some potential for risk or exposure for the Agency.

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.

Given the size of its $85 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 that disburse SBA guarantied loans according to risk. This analysis allows the SBA to focus resources on those lenders that 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

Did you know

The SBA makes low-interest loans to homeowners, renters and non-farm businesses of all sizes following a Presidential disaster declaration. Homeowners may borrow up to $200,000 to repair or replace damaged real estate. Individuals may borrow up to $40,000 to cover losses to personal property.

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 initiative 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 control is in place and that staff members understand and follow required procedures.

OIG 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 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;
- Thirty percent of GAO open findings were closed during the second half of the year; and
- Management made improvements in all OIG management challenges.

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 the Treasury for cross-servicing. Capital Access was referring loans for the Treasury offset but through a coding error was not referring the same loans for cross-servicing. The coding error was corrected and, as of September 30, 2007, all required loans have been referred to the 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 Agency 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:

- Providing enhanced security training;
- Implementing Personally Identifiable Information protection measures (e.g. 2-factor authentication);
- Conducting a comprehensive Agency-wide network topology assessment;
- Instituting increased network vulnerability scanning and management;
- Increasing emergency preparedness and continuity of operations testing;
- Establishing network asset configuration management;
- Establishing an enterprise-wide infrastructure change control board;
- Instituting an Agency-wide policy on end-user computing; and
- 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, 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

Improper Payments

The Small Business Administration's Improper Payment program achieved outstanding results in FY 2007. The 7(a) loan guaranty program had an improper payment rate of only 0.43 percent for purchased guaranties (target rate of 1.54 percent) and zero percent for new guaranties issued, the first year for this new measure. The SBA tracks the reasons for any improper payments and makes appropriate changes in its purchase and guaranty operations and quality assurance procedures to reduce the error rate. The Section 504 Certified Development Company debenture program had an assumed improper payment rate of zero percent and Development Company loan results found a zero percent improper payment rate in FY 2007. These results confirm the success of SBA's program controls and quality assurance program.

The Small Business Investment Company program had an improper payment rate of only 0.16 percent in FY 2007 (target rate of 2 percent). This result verifies the success of SBA's management of the SBIC program that includes strict program eligibility requirements, training, periodic examinations of SBIC companies and management oversight of the SBIC investment operations. Finally, the Disaster direct loan program attained an improper payment rate of only 0.55 percent in FY 2007 (target rate of 0.75 percent). This demonstrates SBA's sound management of its Disaster program that includes thorough multi-layered application review, on-site verification of the damage caused by disasters, loan repayment terms geared to the disaster victim's payment ability and the Agency's Quality Assurance Review program to monitor program activity and to address issues as they arise.

Did
you
know

Small business is a big contributor to the nation's economy, generating 50 percent of the private, non-farm gross domestic product, according to a study released in April 2007 by the Office of Advocacy of the Small Business Administration. The study covers the period 1998 – 2004, and confirms findings of earlier research.

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 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

SUMMARY OF KEY MANAGEMENT ISSUES

The President's Management Agenda

The President's Management Agenda contains five government-wide goals, augmented by agency-specific program goals, to improve federal management and deliver results that matter to the American people. In addition to the government-wide goals the SBA has three agency-specific goals: Faith-based and Community Initiatives; Eliminating Improper Payments; and Improved Credit Management. The following chart shows SBA's FY 2007 ratings and summarizes significant achievements for each PMA goal. Additional information on the President's Management Agenda can be found at www.results.gov.

Summary of the Small Business Administration's **FY 2007 President's Management Agenda Ratings**	*Status*	*Progress*
Human Capital		
In FY 2007 the SBA continued work towards achieving a "green" rating for *status* as well as *progress*. The Agency 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 FY 2007. The Agency is planning for increased competition in FY 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 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 the 7(a) and 504 Certified Development Company guarantied loan programs. The Agency has reporting procedures and recovery targets as required for its programs.	Yellow ↓ Y	Green G
Improved Credit Management		
Improved Credit Management was established as a new initiative in FY 2006. The SBA met its FY 2007 milestones for this initiative and is working to provide analysis of major loan program portfolio risk indicators.	Red R	Green ↑ G

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

The Performance Assessment Rating Tool

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 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 five categories: (1) *Effective*, (2) *Moderately Effective*, (3) *Adequate*, (4) *Ineffective*, and (5) *Results Not Demonstrated*. To date, the SBA, in conjunction with OMB, has initiated ten formal PART assessments as shown in the following chart:

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 can be found in the accompanying CD. Please go to www.ExpectMore.gov for detailed information on the status of improvement plans.

Management Challenges

For FY 2007, the inspector general reported nine Management and Performance Challenges facing the SBA.[6] The report noted that the Agency continues to demonstrate substantial progress in resolving the Challenges. For example, SBA's efforts to identify and address the underlying causes of its financial management issues, improve the models for estimating the Agency's subsidy costs, strengthen controls over financial statement preparation, and adhere to all reporting deadlines resulted in two successive unqualified audit opinions on of its financial statements. Recognizing this accomplishment, the FY 2008 report reflects the elimination of one of the Challenges in the previous year's report.

For each Management Challenge, there are a series of recommended actions. Each is assigned a color status: "green" for *Implemented*; "yellow" for *Substantial Progress*; "orange" for *Some Progress*; and "red" for *No Progress*. The following table shows the scores for recommended actions for each of the nine Challenges noted. *Improved* refers to a recommended action that showed progress this year over last year's score.

Status Score						
	Topic	Green	Yellow	Orange	Red	Improved
1	Small business contracts		2	2		1
2	IT security	2	5	1		4
3	Human capital	N/A	N/A	N/A	N/A	
4	Loan guaranty purchase		3	1		2
5	Lender oversight	1	5	5		4
6	8(a) business development program	1	1	4	1	3
7	SBIC program	1	3	2		5
8	Loan agent fraud	1	2	3		3
9	Directives system	3		1		3

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[6] The complete FY 2008 Report on the *Most Serious Management and Performance Challenges Facing the SBA* can be found in the FY 2007 AFR which is included in the CD that accompanies this HIGHLIGHTS report.

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