U.S. Small Business Administration

SBA

Your Small Business Resource

Agency Financial Report
Fiscal Year 2008

Helping Small Business Start, Grow and Succeed

The Annual Performance Report and the Citizens' Report will be available no later than January 15, 2009, on http://www.sba.gov/aboutsba/budgetsplans/serv_budget_links.html, or by writing or calling the contacts below.

Information about SBA's programs is available at:

www.sba.gov

SBA's plans and reports are available at:

http://www.sba.gov/aboutsba/budgetsplans/serv_budget_links.html

Para información acerca de los programas de la SBA:

http://www.negocios.gov

Requests for printed copies, or questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to:
performancereports@SBA.gov

Or, you may write to:

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Office of the Chief Financial Officer
409 Third Street, S.W.
Suite 6000
Washington, DC 20416

Or, you may call:

Bruce Crippin
Performance Management Office
(202) 205-6188

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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 & 2007

2006

2007

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Message from the Administrator

SBA's Mission

The mission of the Small Business Administration (SBA) is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

November 17, 2008

I am pleased to present the U.S. Small Business Administration's FY 2008 Agency Financial Report. This report describes the Agency's financial results over the past year as it pursued its mission to support small businesses and entrepreneurship as well as to assist communities' economic recovery after disasters. This report also highlights SBA's efforts to strengthen internal controls and reduce improper payments. Again this year, SBA is participating in the "pilot" performance reporting project under the auspices of the White House Office of Management and Budget.

SBA has made tremendous progress over the past several years in improving its programs and operations, training its employees, and strengthening internal controls, financial management, and information technology across the agency. The Federal Managers' Financial Integrity Act (FMFIA) requires Executive Branch agencies to establish and maintain effective internal controls. As discussed further in this report, I am pleased to provide an unqualified assurance that SBA's financial and performance data in this report is reliable and complete without any material weakness.

SBA's improvements have translated into tangible benefits for the nation's small businesses, budding entrepreneurs, and the many private partners SBA works with to carry out its mission. I am proud to carry on and expand upon the impressive improvements initiated under former Administrator Steve Preston's leadership. Looking back, some of the highlights of SBA's achievements include:

- In the Office of Disaster Assistance, the Agency completely restructured operations to establish a more customer-centered process. Based on this effort, all Gulf Coast Hurricane backlogs were eliminated and key process times were cut by up to 90 percent. In FY 2008, disaster victims received an approval or decline determination on their SBA loan application within an average of 7 days.
- For the Section 7(a) Guarantied Loan Program, the purchase process was redesigned, additional staff was added to reduce outstanding backlogs of lender claims, staff in the purchase centers and across SBA's field offices received in-depth training, and customer support resources were enhanced. Today, the excess backlog is gone and complete claim packages are turned around in an average of 23 days from receipt, a dramatic improvement from the average 279 day wait experienced just 18 months ago.
- In the Office of Government Contracting and Business Development, we made significant progress in enhancing transparency and accountability in federal agency small business contracting. We continue to work with the Office of Federal Procurement Policy in efforts to correct and prevent errors in the contracting data. SBA issued its second annual agency-by-agency Small Business Procurement Scorecard. These efforts, begun in FY 2006, created more opportunities for small business. They helped produce $83.2 billion, a record number, of prime contract dollars awarded to small businesses in FY 2007.

- The Agency fixed the backlog in our 8(a) certification process and cut the application turnaround times in half.
- SBA redesigned aspects of the operations of the Women's Business Center program including moving to an advance payment system which puts funds in grantees' hands in less than 48 hours. This is a terrific improvement over the previous reimbursement process which took from 30 days up to 9 months in some cases.
- To address employee morale and training, we established SBA University, which provided, and will continue to provide, hands-on training for staff across the Agency. SBA also increased focus on internal Agency communications. As a result, in SBA's FY 2007 employee satisfaction survey (conducted by the Office of Personnel Management), SBA's employees indicated dramatic improvements in most areas over the FY 2006 results, where SBA ranked near the bottom of all federal agencies. Areas showing the most improvement included overall job satisfaction, employee satisfaction with opportunities to use and improve their skills, employee satisfaction with how well leadership communicates goals, priorities and other information, and overall respect for senior leadership.

Despite these many accomplishments, however, much remains to be done at SBA. While we have made progress in improving transparency and accountability in small business procurement, more needs to be done to address errors in reported contracting data and the potential for businesses to be inaccurately considered small businesses, and other efforts to ensure that SBA benefits flow to only those eligible. Numerous challenges in the HUBZone program were identified by the Government Accountability Office this year and SBA is taking aggressive action to address the problems. The recent difficulties in the financial markets are putting our loan servicing and guaranty process improvements to the test and I anticipate this will require continued attention in the coming year, as well as innovative policy solutions.

Since coming to SBA, my focus has been on following through on the many reforms that Administrator Steve Preston spearheaded during his tenure. I want to ensure these changes become fully ingrained into SBA's mission and operations. That agenda includes balancing access to capital with appropriate lender oversight, attracting more lenders back into SBA programs, ensuring effective disaster response, focusing on underserved markets, and connecting small businesses with international markets.

As we continue to implement these reforms, I look forward to extending the reach of SBA in helping entrepreneurial Americans achieve their business dreams. At the end of the day, this is what the taxpayers, small businesses and entrepreneurs expect of the Small Business Administration.

Sincerely,

Sandy K. Baruah
Acting Administrator

U.S. Small Business Administration

SBA

Your Small Business Resource

Management's Discussion and Analysis

FY 2008 Pilot Program for Alternative Approaches to Performance and Accountability Reporting

The Performance and Accountability Report (PAR) is a consolidated document that presents financial, budgetary and performance information to OMB, the Congress and the Public. A common complaint of the PAR has been that so much information is presented in it that it is hard to identify the target audience for this report. The Office of Management and Budget addressed this issue in FY 2007 by implementing a pilot PAR program that provides Agencies with the option of submitting three separate reports - The Agency Financial Report (AFR), the Annual Performance Report (APR), and the Highlights (now the Citizens Report), instead of the consolidated PAR. With this "pilot" option, instead of having one report that must cater to a multitude of audiences (financial, performance, Budget, Congressional, OMB, the Public), the three separate reports can be targeted to their distinct audiences.

The Small Business Administration chose to participate in the FY 2007 pilot PAR program and received the Association of Government Accountants "Certificate of Excellence in Accountability Reporting" for its efforts. For FY 2008, OMB encouraged Agencies to adopt the pilot PAR format. Again, the SBA has chosen to participate in this pilot program. This report, the AFR, is the first of the three reports.

Executive Summary

The Mission

The U.S. Small Business Administration's mission is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.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. Most of SBA's available budgetary resources are devoted to its credit programs. For FY 2008 the Agency's available budgetary resources were $3.0 billion and non-budgetary resources in the loan financing funds were $6.1 billion. As of September 30, 2008, the SBA had guaranteed $61.7 billion of loan principal, up 5.6 percent from the $58.4 billion guaranteed as of September 30, 2007. At the end of FY 2008, the total outstanding balance of SBA's total loan portfolio of loan guaranties and loan receivables was $88.1 billion, an increase of 4.3 percent above FY 2007. SBA's portfolio has increased 70 percent since FY 2001. The Agency's portfolio of loans receivable also continued to grow. Loan program receivables for the SBA are comprised of business and disaster direct loans and defaulted guarantied loans purchased per the terms of SBA's loan guaranty programs. These receivables were valued at $8.5 billion this year, an increase of 2 percent over last fiscal year. These loan receivables include disbursements to the victims of hurricanes Katrina, Rita and Wilma. We expect an additional growth in our receivables as loans are disbursed to the victims of Hurricanes Gustav, Ike and other disasters.

The Agency received an unqualified audit opinion in FY 2008 for the fourth year in a row. Also, the FY 2008 audit found no material internal control weaknesses in SBA's financial reporting for the second year in a row. During FY 2008, the Agency continued to strengthen its internal control over financial reporting and credit subsidy cost modeling through refinements of our quality assurance procedures. Also, the Agency completed actions to address most of the issues raised in its FY 2007 financial audit, including weaknesses in information technology system security. The FY 2008 audit, however, found a duplicate payment issue related to IT change control, and IT security is still considered an area of significant deficiency, but not a material weakness. The SBA also conducted its review of the internal controls over financial reporting required by OMB's Circular A-123 since FY 2006. The Agency evaluated 16 business processes which are material to the Agency's financial statements. Although the SBA did identify a number of deficiencies, only five were categorized as significant deficiencies, and none were identified as material weaknesses.

During FY 2008 the Agency maintained a low level of improper payments in its major credit programs. Although improper payments for 7(a) guaranty purchases and new Disaster loans increased slightly to 0.53 percent and 0.74 percent respectively (compared to 0.43 percent 0.55 percent last year) these rates are still far below the standard set by the Office of Management and Budget of 2.5 percent for improper payments. Also, the processing of new guaranties for the 7(a), 504 and SBIC programs was tested, with no improper guaranty processing identified.

Program Results (1)

FY 2008 was another year of considerable accomplishment for the SBA. A total of 78,324 new 7(a) and 504 loans were approved. Although this is a decrease from FY 2007's record setting 110,272 loans, the FY 2008 loans represent $18.2 billion in new lending to America's small businesses. Despite the more difficult market conditions, 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.

The SBA continued its comprehensive campaign to improve the responsiveness and efficiency of its disaster assistance operations. This year, the SBA launched an electronic loan application to simplify the application process and speed delivery of assistance to disaster victims. For FY 2008, SBA approved 15,128 disaster loans for $954 million.

The Disaster Assistance Improvement Plan was mandated by the President in Executive Order 13411. The Order mandates that the federal agencies create a single application that fulfills the information requirements of all applicable federal disaster assistance programs. The SBA has met the goals set by the Order.

The SBA continues to support the Administration in meeting its statutory commitment to provide a fair share of federal contracting dollars to small businesses. The Agency oversees a small business goal-setting program across all federal agencies to assist in the achievement of this government-wide goal. In FY 2007 (the most recent fiscal year for which data is available), federal agencies reported that a total of $83.3 billion in federal prime contract dollars went to small businesses. This is a $5.6 billion increase from FY 2006, when $77.7 billion was reported. SBA is committed to improve its oversight over the HUBZone program, and during FY 2008, the agency stepped up efforts to gather and verify more data from applicant firms.

In FY 2008 an estimated 1.4 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 counseling and training in a broad range of areas including: developing business plans, implementing new technologies, accessing capital, winning government contracts, developing marketing plans, and many other undertakings vital to the success of a small business throughout its lifecycle. SBA's investment of $115 million in FY 2008 in grant funding for these programs provides imperative, targeted technical services to entrepreneurs throughout the nation.

Management Results

As of September 30, 2008 the SBA ranked "green" in status on four President's Management Agenda items, (Financial Performance, Electronic Government, Improved Program Performance and Eliminating Improper Payments), an improvement from last year when only Performance Improvement was rated "green." Three initiatives remained "yellow" (Human Capital, Commercial Services Management and Faith Based and Community) and one (Improved Credit Management) remained "red". As of September 30, 2008, the SBA was rated "green" on progress for all initiatives except Commercial Services Management and the Faith Based and Community Initiative, where our progress was rated "yellow." No new programs were evaluated using the Office of Management and Budget's Program Assessment Rating Tool; however, the SBA and OMB completed an assessment of the performance measures used to manage the ten programs evaluated in prior years. Based on the results of the assessment the SBA is refining or developing new measures for several of the programs.

(1) See Appendix 3, Glossary of Acronyms and Abbreviations for definition of Programs e.g. 7(a), 8(a), 504...

SBA by the Numbers

(All Dollars in Millions)		FY 2005	FY 2006	FY 2007	FY 2008
Financial Assistance					
7(a) Regular Loans (1)	Dollars of Loans Approved	$ 15,407	$ 14,728	$ 14,479	$ 12,819
504 Regular Loans (1)	Dollars of Loans Approved	$ 5,140	$ 5,861	$ 6,463	$ 5,419
Microloans	Dollars of Loans Funded	$ 21	$ 19	$ 21	$ 20
SBIC	Dollars of Financings Approved	$ 363	$ 477	$ 759	$ 1,030
7(a) Loans (1)	Number of New Loans Approved	95,900	97,290	99,603	69,441
504 Loans (1)	Number of New Loans Approved	9,194	9,943	10,669	8,883
Microloans	Number of New Loans Funded	2,436	2,395	2,427	2,682
SBIC	Number of Small Businesses Financed	2,298	2,121	2,057	1,905
Disaster Assistance (1)	Dollars of Loans Funded	$ 2,371	$ 11,675	$ 1,407	$ 954
	Number of Loans Funded	41,651	137,803	13,716	15,128
Total Portfolio (1) (2)	Outstanding Principal Balance	$ 71,480	$ 78,107	$ 84,512	$ 88,095
Management Assistance					
SCORE	Number Small Businesses Assisted	403,724	308,710	336,411	360,559
SBDC	Number Small Businesses Assisted	706,501	667,660	600,665	558,487
WBC	Number Small Businesses Assisted	144,316	129,373	146,828	159,879
District Offices Counseling & Training	Number Small Businesses Assisted	409,276	315,665	348,855	305,755
Procurement Assistance					
Prime Contracting (3)	Annual Value of Federal Contracts	$ 80,000	$ 77,670	$ 83,275	N/A
Surety Bond	Number of Final Bonds Guaranteed	1,680	1,706	1,640	1,576
HubZone (3)	Annual Value of Federal Contracts	$ 6,186	$ 7,162	$ 8,463	N/A
8(a) Program (3)	Number of Small Businesses Assisted	9,458	9,600	9,479	N/A
Regulatory Assistance					
Advocacy (4)	Regulatory Cost Savings	$ 6,600	$ 7,250	$ 2,568	N/A

(1) In prior fiscal years, this table has presented "Disbursement/funded" loans for the Financial Assistance, Disaster Assistance and Total Portfolio. This table now presents "Gross Approvals" of both the value and number of total loans approved. The SBA prefers this measure because it better represents the loan portfolio processed by the SBA. There is a substantial difference in the two measures. The "Gross Approvals" loan numbers are approximately 15 percent higher for guaranteed loans (7(a) and 504 loans), and 46 percent higher for Disaster direct loans, than "Disbursement/funded" loans. Disaster loans are substantially higher when counting Gross Approvals because many potential borrowers are initially approved and then decide that they do not need the funds for a variety of reasons like receiving insurance payments, grants, or maybe deciding not to rebuild.

(2) This includes all Disaster and Business Loans.

(3) Federal Agencies have not yet certified their FY 2008 data. We should receive the FY 2008 certified data by the 3rd or 4th quarter of FY 2009.

(4) The FY 2008 data will be available Feb/March 2009.

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, the 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 also include management assistance and specialized outreach to veterans, women and underserved markets. Since its inception, SBA has made or guaranteed in excess of $211 billion in business loans.

The SBA plays a vital role in enabling America's entrepreneurs and has stamped its mark on many formerly small businesses that have grown to become household names and leaders in their field. These firms include Federal Express, Staples, Jenny Craig, Under Armour, Intel, Sun Microsystems, Radio One, Hewlett Packard, and a host of others.

For 2008, the SBA celebrates Richmond, Virginia's SnagAJob.com as the National Small Business of the Year. Barely eight years after its start, SnagAJob.com has become a hugely successful site for posting and finding hourly and part-time jobs, connecting millions of registered job seekers with active job postings. SnagAJob's Chief Financial Officer, Shawn Boyer "is a perfect example of the creativity and inspiration it takes to become a highly successful entrepreneur in America today," said the SBA Administrator. "He identified an unmet need and filled it. In doing so, Shawn demonstrates the qualities that make small businesses such a powerful force in the American economy, and in their communities."

For more detailed information on other success stories for 2008, please visit http://app1.sba.gov/sbsuccess/2008

Did you know?

SCORE is America's premier source of free and confidential advice for existing and emerging small businesses. If you are a small business owner or are thinking about starting a small business, SCORE can help.

There is probably a SCORE office near you. Find your chapter online at www.score.org. If you do not have a computer, please call SCORE at **800-634-0245**

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's headquarters 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 of 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 and Microloan programs and the Small Business Investment Company program. OCA is also responsible for the Surety Bond Guarantee and the International Trade Assistance programs.

Procurement Assistance

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

Management Assistance

The Office of Entrepreneurial Development provides business counseling and training through its partner's network composed of Small Business Development Centers, Women Business Centers and SCORE. In addition, District Offices provide counseling and training that complements the assistance provided by the SBA's partners.

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 for small business to advance the views, concerns, and interests of small business before Congress, federal government, federal courts, and state policy makers.

The National Ombudsman receives complaints and comments from small businesses and acts as a "trouble shooter" between small businesses and federal agencies.

Other Assistance

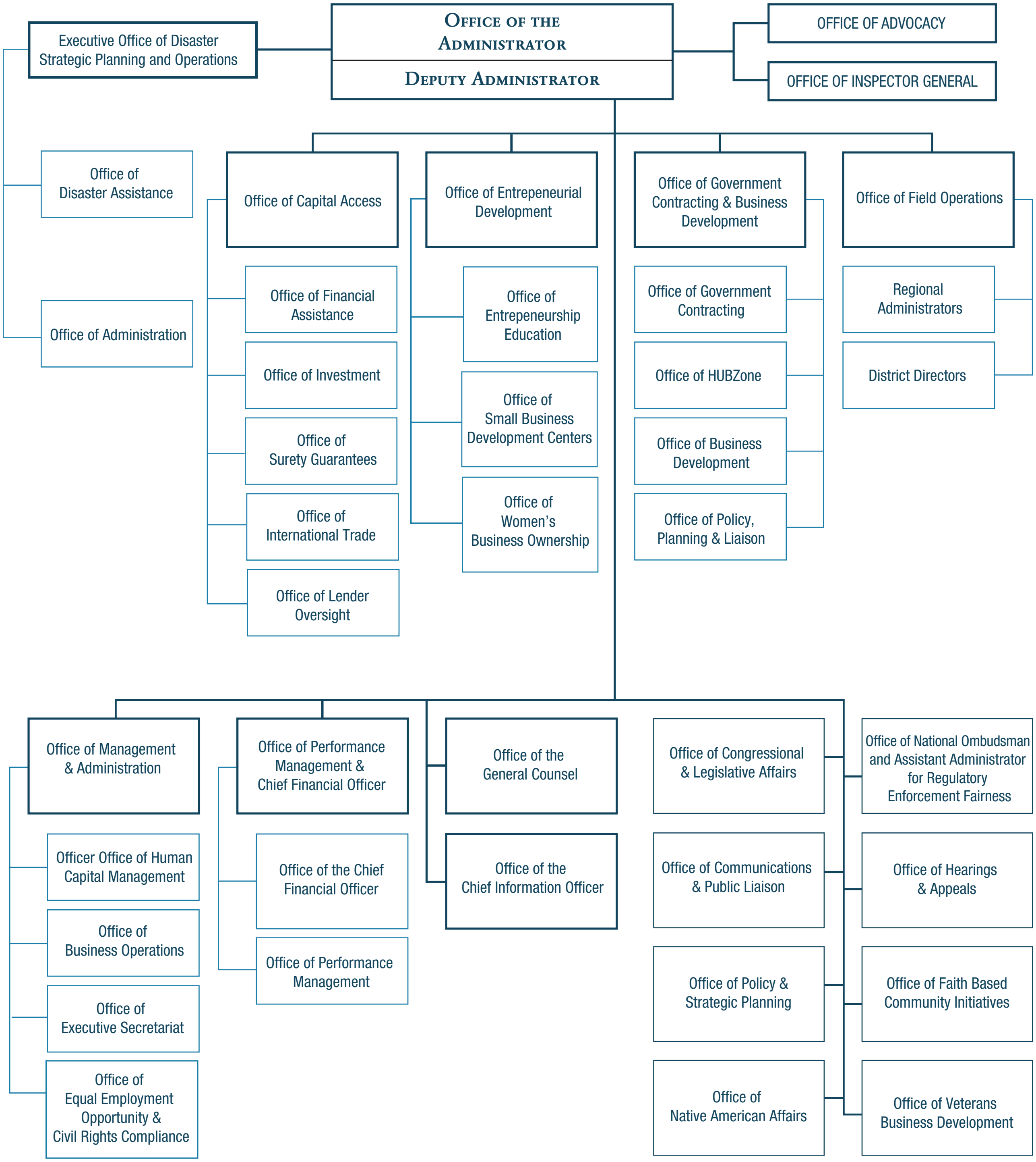
The Office of Veterans Business Development formulates and delivers policies and programs that provide assistance to veterans seeking to start and develop small businesses.

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

Did you know?

SBA's Office of the National Ombudsman assists small businesses with unfair or excessive regulatory enforcement actions taken by federal agencies; including repetitive audits or investigations, excessive fines, penalties, retaliation, inadequate compliance assistance, or other unfair regulatory enforcement actions.

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 highlights programs that assist small business directly or through SBA's partners. The second Strategic Goal focuses on the assistance that the Agency lends in cases of disasters. The third Strategic Goal shows how the SBA improves the economic environment for small businesses. 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

STRATEGIC GOAL 1 – Expand America's ownership society, particularly in underserved markets

- Improve access to SBA programs and services by small businesses to drive business formation, job growth, and economic activity.
- Support entrepreneurship in markets with higher poverty and unemployment, and in our military community.
- Ensure stewardship and accountability over taxpayer dollars through prudent financial portfolio management and oversight.

STRATEGIC GOAL 2 – Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster

- Respond quickly, efficiently, and effectively to disaster applicants.

STRATEGIC GOAL 3 – Improve the economic environment for small business

- Protect, strengthen and effectively represent the nation's small businesses to minimize the regulatory burden.
- Foster a more small-business-friendly environment.

STRATEGIC GOAL 4 – Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls

- Deploy a skilled workforce capable of executing high quality programs.
- Provide a safe and secure information system environment to support business decisions and agency operations.
- Provide financial and performance management services to support efficient and effective program delivery.

Performance Data Collection and Validation

Managing for results and producing an Annual Performance Plan and Performance and Accountability 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: an excellent 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 will be available for review with the publication of the Annual Performance Report, January 15,2009.

Success Story

Mama Turney's Pie Company

Tennessee Small Business Person of the Year

Michael Turney, President and founder of Mama Turney's Pie Company transports the consumer back to the "good ol' days" of American Bandstand, drive-in movies, penny candy, and conversations around the dinner table with every bite of his home-baked pies.

In 1996, Michael was a meat cutter in a barbeque restaurant near Nashville. As a dessert option, slices of pie home-baked by his wife, Barbara, were offered to customers. When customers kept coming back just for the pie, Mike and Barbara decided to pursue pie production and sales full time. After they received their first order from a local Kroger store, the restaurant was converted into a full-time commercial baking operation.

With no capital to meet the growing orders and no bank willing to finance the fledging business, Mike reached out for help. SBA's Tennessee District Office answered his plea and two staff members paid the Turneys a visit and promised to help. Through that contact with SBA, the Turney's heard from the Nashville Chapter of SCORE who helped them prepare a business plan. They ultimately received an SBA backed loan to finance the initial growth phase of the business.

A little over ten years and a second SBA loan later, Mama Turney's Pie Company has 9 employees, sales of almost $1.1 million, with over 2,500 commercial accounts. While planning for future expansion, Mike and Barbara believe in giving thanks for their success by extending their help and expertise to young entrepreneurs. Mike says "We're very grateful to the SBA and others who have helped us, so we believe we have a duty to give back to our community whenever we can."

Summary Performance Information on Key SBA Programs

Program Performance Indicators

The following table presents "Key" SBA FY 2008 performance data. The first three programs - 7(a), 504, and Disaster loans - are the three largest SBA guarantee and loan programs. These programs make up the bulk of SBA's loan portfolio. The other two indicators have been included as an example of the impact of other SBA programs and to highlight the soundness of the SBA's financial systems (appropriate for the Agency's Financial Report). Detailed performance information on all the SBA's programs will be presented, and all variances explained, in the FY 2008 Annual Performance Report which will be submitted January 15, 2009.

Strategic Goal 1 - Expand America's Ownership Society, Particularly in Underserved Markets

Program	Performance Indicator	Type of Indicator	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Goal	FY 2008 Actual	FY 2008 Variance
7(a)	Small Businesses Assisted (#)	Outcome	83,102	80,303	84,666	91,016	59,019	-35% R
7(a)	Jobs Created/Retained (#)	Outcome	662,133	790,170	864,947	864,947	649,271	-25% R
504	Small Businesses Assisted (#) [1]	Outcome	7,629	7,569	9,708	10,436	8,084	-23% R
504	Jobs Created/Retained (#)	Outcome	135,022	135,479	140,778	152,040	121,723	-20% R
Strategic Goal 2 - Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster								
Disaster	Customer satisfaction rate	Outcome	66%	57%	66%	72%	66%	-10% Y
Disaster	Disasters having field presence within 3 days (%)	Output	100%	100%	100%	95%	100%	5% G
Disaster	Time to process 85% of business physical applications (days)	Output	35	66	11	16	11	31% G
Strategic Goal 3 - Improve the Economic Environment for Small Business								
Advocacy [2]	Regulatory Cost Savings to Small Businesses ($ in billions)	Outcome	6.60	7.25	2.60	5.50	N/A	N/A W
Strategic Goal 4 - Ensure Management and Organizational Excellence to Increase Responsiveness to Customers, Streamline Processes and Improve Compliance and Controls								
Financial Reporting	Unqualified Opinions for Audit Year	Outcome	Yes	Yes	Yes	Yes	Yes	0% G

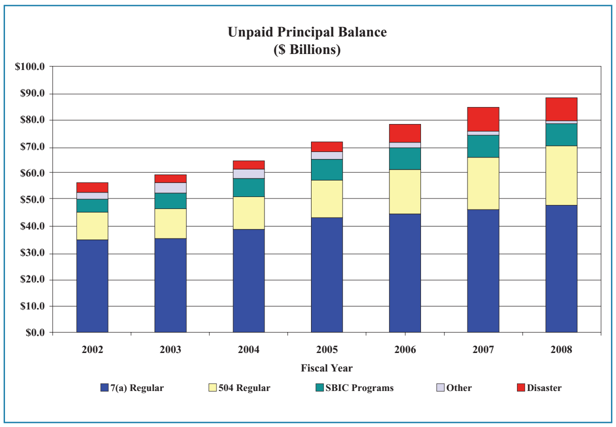
Y	Actual results is within 10% of meeting the target
R	Actual results is less than 90% of target
G	Actual results meets or exceeds target
W	Data not available

[1] FYs 2005 and 2006 totals only include data for existing businesses. Start-up businesses were not included. Starting in FY 2007, all small businesses assisted are included.

[2] The FY 2008 Actual will be available February 2009

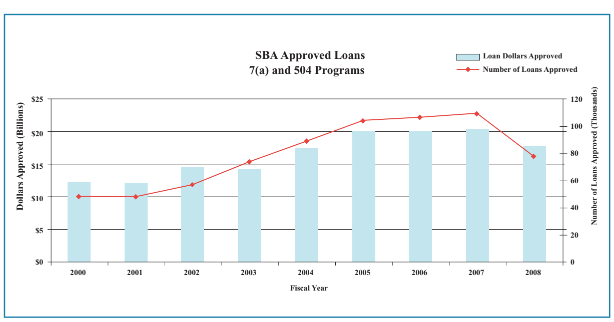
Portfolio Analysis

The SBA is the taxpayers' custodian of a loan portfolio of $88.1 billion, as shown below. This portfolio includes both guarantied and direct business loans and direct disaster loans. In FY 2008, the total outstanding portfolio of guarantied and direct loans grew by 4.3 percent. The Agency's portfolio of direct disaster loans declined by 3.9 percent in FY 2008 to $8.6 billion.



SBA Loan Volume in the Current Economy

During FY 2008, the downturn in the nation's housing market that began in FY 2007 continued to impact the overall economy, including small businesses. Economic uncertainty has led to diminished loan demand by small business owners and those looking to start a small business. Borrowers are on average less creditworthy than previous years. Lenders have also tightened credit standards for borrowers. The SBA's loan volume as well as the performance of the Agency's portfolio have been impacted by these national economic trends. In FY 2008 total loan approvals declined by 29 percent compared to FY 2007. Total loan dollars approved declined by approximately 13 percent compared to FY 2007.



Economic Trends Influencing Loan Volume

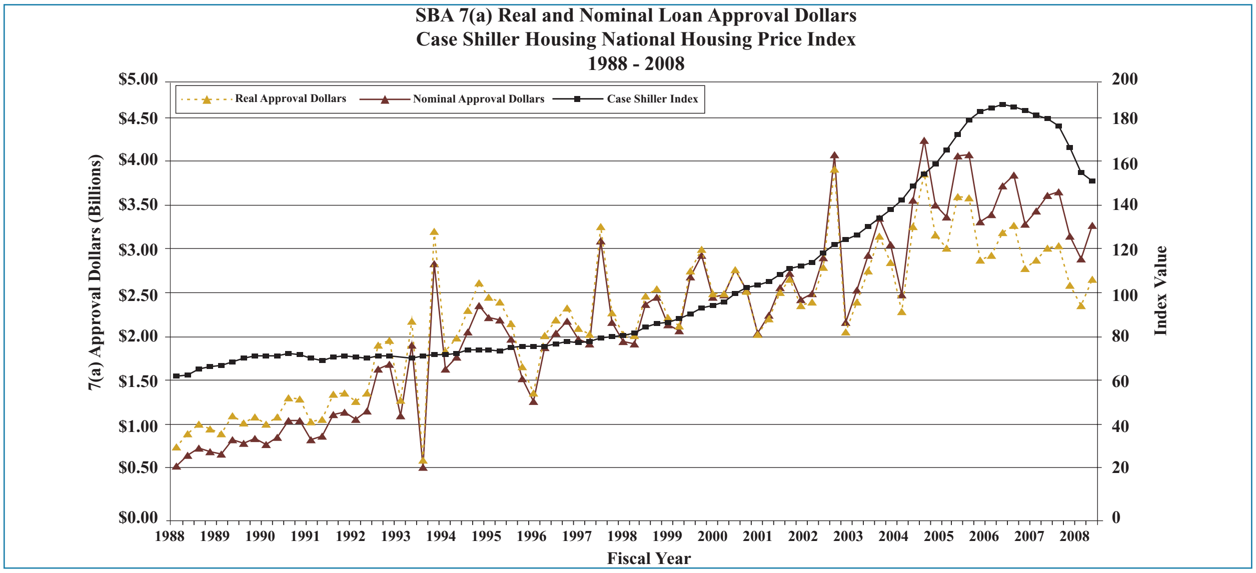
Many factors influence small businesses' decisions to seek financing, including the current and anticipated economic environment, the cost and availability of credit, and alternatives to borrowing. Several indicators of decreased borrowing and lending activity are visible for FY 2008, including diminished confidence in the economy, falling housing prices, tightened credit standards, increasing costs of funds for lenders and overall liquidity problems.

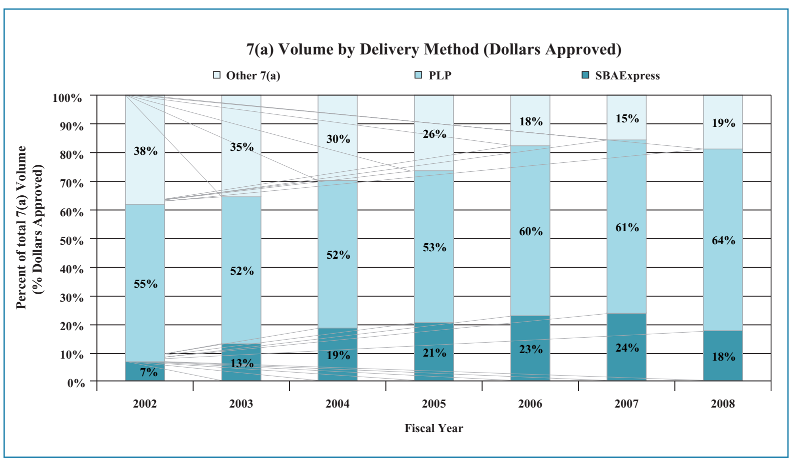
In this uncertain time, some small business owners decide not to start or expand their businesses. According to quarterly Senior Loan Officer Opinion Surveys released by the Federal Reserve Board, demand for commercial and industrial loans has weakened for small firms. About 15 percent of large domestic banks, on net, reported weaker demand from small firms in the July survey, and 30 percent reported weaker demand in the October survey. Additionally, borrower credit-worthiness can be influenced by the value of assets, such as homes. The SBA has found that volume for SBA's 7(a) loan program tracks housing prices closely. The chart below compares volume for SBA's loans with the Case-Shiller National Housing Price Index, which measures change in home prices. During FY 2008, as housing prices declined, SBA loan demand also fell.

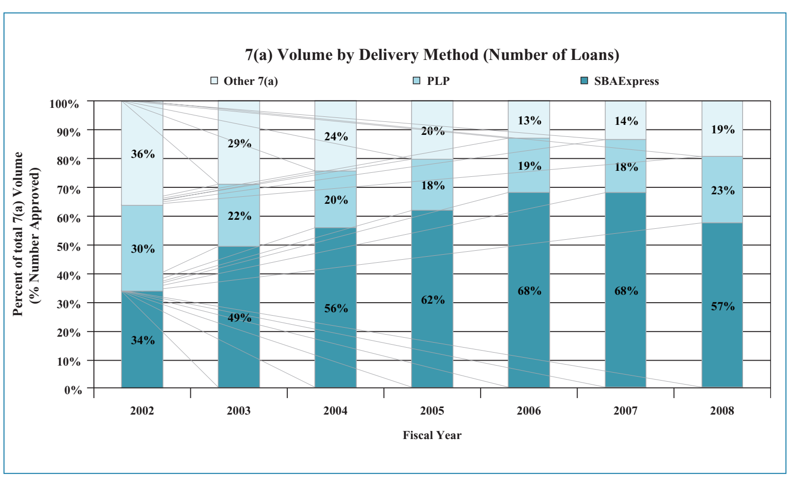
At the same time, SBA lenders are affected by the economic situation. Several lenders pulled back on their small business lending as increased delinquencies spilled from the housing market to other parts of the credit markets. In the July Senior Loan Officer Survey 65 percent of lenders say they have tightened their lending standards for commercial and industrial loans to small businesses. This was a 15 point increase from April 2008. In the October survey, 75 percent reported tightened lending standards to small businesses. Significant majorities of domestic respondents also indicated that they had tightened selected price terms on commercial and industrial loans to firms of all sizes – with 70 percent reporting that they widened spreads on loans to small firms in July and 93 percent reporting widening spreads in October.

All of these factors combined to significantly reduce FY 2008 approvals of SBA-guarantied small business loans.

Note: The Case-Schiller Index has a base of 100 in January 2000. The index value measures positive and negative change from that timeframe. Since 2006, housing values have declined by nearly 25 percent.







Demand for Specific SBA Lending Products

The decrease in the SBA's lending volume was not consistent across all types of business loans. SBA offers several types of business loans, including SBAExpress loans, regular 7(a) loans, 7(a) pilot program loans and 504 program loans. Looking at the portfolio by lending program, we see that the much of the current decline in number of loans approved in the 7(a) program is due to a sharp decline in the number of SBAExpress loans made.

Volume for SBAExpress loans, which are predominantly used for unsecured working capital loans and revolving lines of credit, has changed more in recent years than the volume of other products. Between FY 2002 and FY 2007, SBAExpress loans were driving the growth in the overall number of 7(a) loans made. In FY 2008, total SBAExpress volume decreased by 41 percent in number of loans approved and 34 percent in dollar amount approved from FY 2007 totals. The decline in SBAExpress lending accounts for 92 percent of the overall decline in the number of 7(a) approvals in FY 2008 from FY 2007. In dollar value, the decline in SBAExpress accounts for 70 percent of the overall decline in 7(a) dollars approved in FY 2008 compared to FY 2007. The decline in SBAExpress lending was predominantly due to decisions by some large SBA lenders to reduce or eliminate the availability of that product because of losses they had incurred.

Credit Risk Management and Oversight

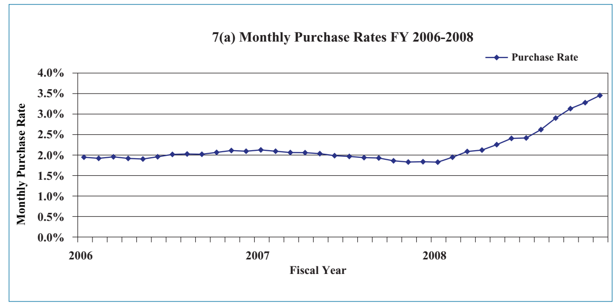
To ensure the SBA's effective stewardship of its loan portfolio, the Agency's Office of Credit Risk Management has a state of the art loan and lender monitoring system that incorporates credit scoring metrics to track and monitor the risk in the Agency's 7(a) and 504 loan programs. Data are used to analyze 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 credit scores (not origination credit scores) for almost all outstanding 7(a) and 504 loans. The SBA loan and lender performance data are updated monthly. Additionally, 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. The SBA is developing a similar portfolio monitoring system for the Agency's direct disaster loan programs that will be introduced in FY 2009. All of this information is used by the Agency to make informed management decisions about loan program policies.

SBA Loan Purchase Rates

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. Purchase rates for the 7(a) and 504 programs have increased during FY 2008 compared to previous fiscal years. The 7(a) purchase rate increased by 80 percent to 3.25 percent, while the 504 debenture purchase rate increased by 60 percent, to 1.42 percent, compared to FY 2007. In both cases, these rates are at the highest levels in more than 6 years. The increase in purchase rates follows an overall economic trend of increasing loan default rates. At the same time, it is slightly affected by the decrease in SBA lending volume this year.

Lifetime Forecasted Default and Net Loss Rates

The SBA also calculates the forecasted lifetime default rate for loans, grouped by origination year, under the requirements



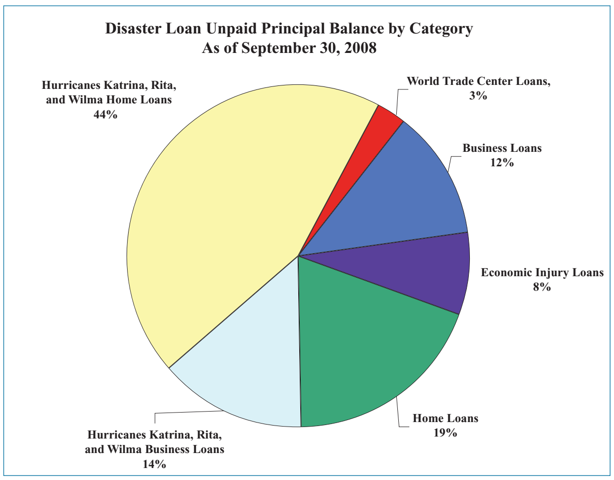
of the Federal Credit Reform Act. This measure shows the entire loan amount the SBA expects to purchase over the life of the loans in each cohort year, divided by the total amount originated in that fiscal year. For the FY 2008 cohort, the 7(a) lifetime forecast default rate is 6.95 percent. For the 504 program, the FY 2008 cohort forecast lifetime default rate is 3.39 percent. This rate shows the gross amount the Agency expects to purchase.

After loans are purchased, the Agency recovers funds through liquidation processes. The SBA calculates a net loss rate by applying expected recoveries to expected purchases based on loan characteristics and historical recovery data. For the FY 2008 cohort, the projected net loss rate after recoveries is 3.43 percent for 7(a) loans and 1.95 percent for 504 loans.

Under the Federal Credit Reform Act, any unanticipated losses incurred are automatically covered by permanent indefinite budget authority, which ensures the SBA will have sufficient resources to cover any losses incurred in its existing portfolio without further action by Congress. As described in Footnote 6 of SBA's financial statements, SBA's loan and loan guarantee cost reestimates include all available data through the end of FY 2008 and incorporate macroeconomic indicators. However, the ultimate impact of the financial market crisis and the countervailing efforts by the U.S. and global governments remains unknown at this time.

Disaster Portfolio Trends

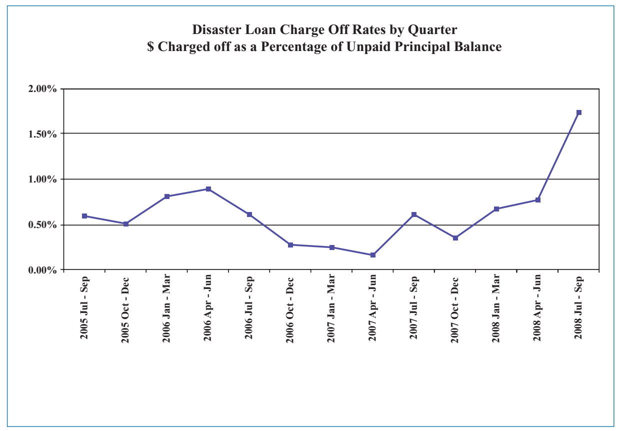
The SBA's portfolio of direct disaster loans consists of both business and home loans. As of September 30, 2008, approximately 63 percent of the outstanding balance in the disaster portfolio is comprised of home loans. Roughly two-thirds of the $8.6 billion in outstanding loans are located in Gulf Coast states; approximately $3.0 billion in loans are for business or home loans in Louisiana, with more than $1 billion each in Florida and Mississippi and $0.7 billion in Texas. Nearly all of the loans from these states were a result of hurricanes Katrina, Rita and Wilma that occurred in late 2005. As a result of those disasters, SBA's disaster loan portfolio increased significantly, from less than $4 billion at the beginning of FY 2006 to nearly $9 billion at the end of FY 2007. The Agency's portfolio of direct disaster loans declined by 3.9 percent in FY 2008 to $8.6 billion.



Disaster Program Default and Charge-Off Rates

The SBA also calculates the forecasted lifetime default rate for loans, grouped by origination year, under the requirements of the Federal Credit Reform Act. This measure shows the entire amount of principal and interest payments expected to go uncollected due to defaults over the life of the loans in the annual cohort divided by the amount disbursed in that fiscal year. For the FY 2008 cohort, the lifetime forecast default rate is approximately 24 percent.

The SBA calculates the disaster charge off rate as the dollar volume of loans charged off divided by the dollar amount of the disaster loan portfolio outstanding each quarter. Charge off rates for the Disaster program increased substantially during FY 2008. The increase in charge off rates follows a similar increase in loan delinquency and default rates.



SBA's Loan Processing and Servicing Centers

SBA's loan processing and servicing centers, along with its National Guaranty Purchase Center, are responsible for loan origination and guarantee purchase activity on all SBA business loans, and the servicing and liquidation of all disaster loans. Given the substantial increase in default activity, the SBA has been working to achieve appropriate and balanced staffing levels in these critical functions to continue to effectively service the needs of its borrowers.

Did you know

SBA's Office of Advocacy's work with regulatory agencies to improve their rules has resulted in average one-time regulatory cost savings since 2001 of more than $9.5 billion each year, and annually recurring regulatory cost savings $3 billion.

Analysis of SBA's Financial Statements

Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. 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.

This analysis is intended to help readers understand the entity's financial results, position and condition as portrayed in the principal financial statements and notes. It explains major changes in assets, liabilities, costs, and budgetary resources; includes comparisons of the current year to the prior year; and discusses the relevance of particular balances and amounts reflected in the principal financial statements and notes. This section also depicts trends via the use of charts and graphs to further understanding of the financial condition and results of the Agency. The SBA is primarily a credit agency and therefore the trends and financial condition of credit program receivables and reestimates are emphasized in this analysis. Following this section is a Highlights of Financial Results chart that provides a condensed summary of the balances in the financial statements for the current and prior year and the percentage change.

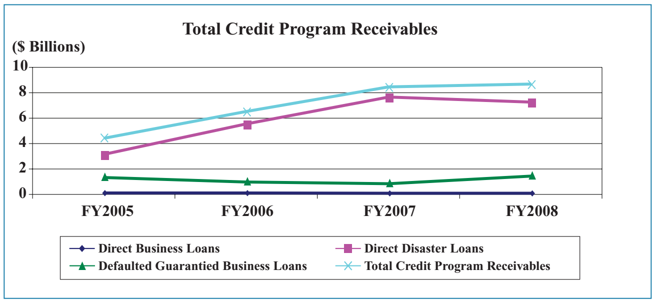
The Portfolio Analysis section in this MD&A discusses in some detail the major trends impacting SBA's portfolio of loan guaranties and receivables. The purpose of that section is to provide an operational analysis of SBA's credit programs, rather than a financial statement analysis. As a result, the definitions of the loan and guaranty balances in the Portfolio Analysis section may differ somewhat from the balances used in this Analysis of Financial Results. For example, for the 7(a) program the total amount of guarantied loans is used in the Portfolio Analysis, where only SBA's guarantied portion (which averaged 71 percent in FY 2008) is used in this Analysis of Financial Results as it ties to balances in the financial statements.

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. Most of SBA's available budgetary resources are devoted to its credit programs. For FY 2008 SBA's available budgetary resources were $3.0 billion, and nonbudgetary resources in the loan financing funds were $6.1 billion. The budgetary resources are the amounts available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds are nonbudgetary accounts that record all the cash flow activity resulting from post 1991 direct loans and loan guaranties. This activity in the financing account is reported separately in the Budget of the United States Government and is excluded from the budget surplus/deficit totals.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2008, was $61.7 billion. This amount is up 6 percent from the $58.4 billion guaranteed at September 30, 2007. The downturn in the nation's economy in FY 2008, however, impacted the demand for SBA loans and resulted in a decrease in the approval and disbursement of new SBA guarantied loans. New guaranties disbursed by the SBA during FY 2008 were down 3 percent compared to FY 2007 (see footnote 6C for further detail on loans disbursed and outstanding at yearend). SBA's portfolio of loans receivable continued to grow but at a slower pace than in recent years. 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 are valued at $8.5 billion this fiscal year, an increase of only 2 percent over last fiscal year. As reflected in Chart I, there was a steep upward trend in the credit program receivables from FY 2005 to FY 2007 driven primarily by the significant volume of disaster direct loans to the victims of hurricanes Katrina, Rita, and Wilma that struck the Gulf Coast in September and October 2005. The primary reason for the increase in credit program receivables from FY 2007 to FY 2008 is due to an increase in defaulted guarantied business loans. This resulted partially from expected increased purchases as a result of the guaranty portfolio increasing in recent years. Also, this increase reflects more efficient program operations in purchasing and liquidation of business loans and the reduction of a backlog from prior years. Finally, it reflects an increase in defaults due to the downturn in the economy and credit markets during FY 2008.

CHART I



SBA's assets and liabilities primarily result from its credit program activities. They 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's disaster loans, while SBA's 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 new 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 $12.4 billion at the end of FY 2008, down 14 percent from FY 2007. Assets decreased primarily due to a $2.2 billion decrease in the Fund Balance with Treasury primarily because of large repayments of excess borrowings in the Disaster financing fund associated with the Gulf Coast hurricanes. This decrease in Fund Balance with Treasury correlates with the decrease in the Debt with Treasury in the Liability section as well as the Permanently Not Available line on the Statement of Budgetary Resources. 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 $12.1 billion at the end of FY 2008, down 14 percent from FY 2007. 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 guarantied loan programs. Debt with Treasury decreased $2 billion as a result of the repayment of excess borrowings to the Treasury in the Disaster financing fund associated with the Gulf Coast hurricanes. This decrease in Debt with Treasury is consistent with the decrease in the Fund Balance with Treasury and is the primary change in SBA's liabilities.

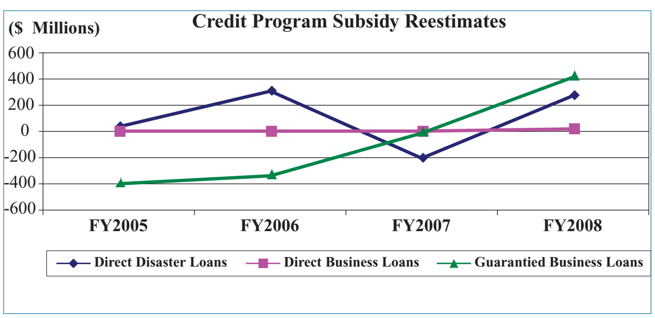
Net Position

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations, decreased in FY 2008 to $334.1 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 increased to $1.36 billion at the end of FY 2008 (from $571.3 million last year) due to unfunded upward subsidy reestimates that increased in FY 2008 on the Disaster Direct Loan program, the 7(a) Program, and the 504 Program from 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 increased $722.7 million this year because the appropriations used in FY 2008 were less than the appropriations received. This is due to the funding in the Disaster Relief and Recovery Supplemental Appropriation Act of 2008 that provided $799 million of appropriations to the SBA in September 2008 to fund the costs of loans made to the victims of Hurricanes Gustav, Ike and other disasters. The SBA has not apportioned or expended these funds; and therefore, these funds resulted in a direct increase in the unexpended appropriation balance at the end of the year on SBA's Balance Sheet. The SBA would expect to see a decrease in the unexpended appropriation balance in FY 2009 as these loans are disbursed.

Results of Operations

The Results of Operations primarily reflects the costs of SBA credit programs from subsidy expenses during the year for new loans and subsidy reestimates at yearend. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the FCRA, the subsidy costs are reestimated annually. 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 2008, the reestimated cost for the 7(a) Loan Guaranty Program, the 504 Program, and the Disaster Direct Loan program all significantly increased. Those increases were the largest components of the change (net increase) in the Agency's net cost. Chart II reflects the increases in the reestimates for the Disaster Direct Programs as well as the Guarantied Business Loan Program from FY 2007 to FY 2008.

CHART II



The increase in the overall Net Cost from FY 2007 to FY 2008 is primarily due to the increase in Strategic Goal 1 from the upward reestimates for the business loan guaranty and business direct loan programs in FY 2008. The 7(a) Loan Guaranty Program and the 504 Program both had upward reestimates that were partially offset by net downward reestimates in the SBIC programs. SBA's flagship 7(a) Loan Guaranty Program had upward reestimates of $574.8 million that were partially due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

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

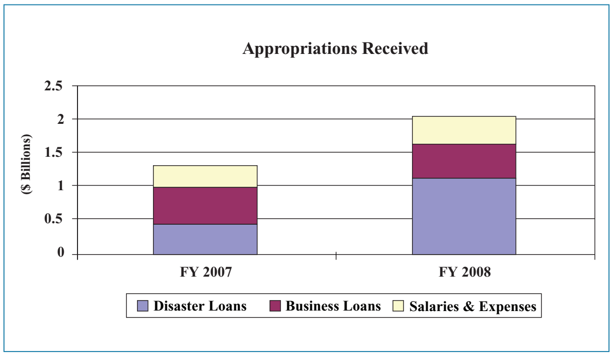
The improvement in performance of SBA's venture capital programs continued into FY 2008. SBIC Participating Securities and SBIC Debentures programs had net downward reestimates of $492.4 million and $158.4 million, respectively. The downward reestimates for these programs are due to a reduction in projected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

Strategic Goal 2 includes a decrease in administrative and subsidy expenses during FY 2008 offset by a net upward reestimate in the Disaster Direct Loan program at yearend. The disaster program had net upward reestimates of $208.4 million primarily in the 2006 cohort that mostly consists of loans from the Gulf Coast hurricanes in 2005. Those loans currently account for about 60 percent of the outstanding portfolio of direct disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2008 that resulted in an increase in projected defaults. Subsidy and administrative expenses declined in FY 2008 after a big year in FY 2007 in lending, borrowing authority, and subsidy related to hurricanes Katrina, Rita, and Wilma. This resulted in an overall decrease in total net costs in this strategic goal from FY 2007 to FY 2008.

Budgetary Resources

Total Budgetary Resources decreased $2.9 billion from FY 2007 to FY 2008. Borrowing authority decreased by $1.6 billion in FY 2008 from the high level in FY 2007 for the Gulf Coast hurricane disasters. This reduction is offset by an increase in Budget Authority in the form of Appropriations Received. The increase in Appropriations Received (Chart III) correlates with the increase in Unexpended Appropriations due to the funding in the Disaster Relief and Recovery Supplemental Appropriation Act of 2008. This Act provided appropriations of $799 million for the SBA in September 2008. There is also a carryover of the prior year unobligated balance that impacts the decrease in the total budgetary resources from FY 2007 to FY 2008.

CHART III



Status of Budgetary Resources

Total Status of Budgetary Resources decreased $2.9 billion from FY 2007 to FY 2008. This reduction correlates with a decrease in subsidy obligated in the Disaster Direct Loan Program in FY 2008 that is consistent with the decrease in borrowing authority as well as the decrease in net costs in Strategic Goal 2. The SBA expects to see an increase in obligations in FY 2009 as the loans pertaining to the Disaster Relief and Supplemental Appropriation Act of 2008 are disbursed.

Another significant change in the Status of Budgetary Resources was a decrease of $2.3 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 and the obligations incurred during the year is the resulting ending unobligated balance.

Success Story

Mr. Natural, Inc.

State of Texas Small Business Person of the Year 2008 Winner

Mr. Natural, Inc., a natural foods restaurant, provides a simple relaxed environment located near Austin, Texas. Over the last 20 years, Jesus and Maria Mendoza have built an award winning natural foods restaurant, bakery, juice bar, and health food store all rolled into one.

Originally from Monterrey Mexico and having established several vegetarian restaurants in Mexico, Jesus and Maria Luisa came to the United States in 1985 and in 1987 they established Mr. Natural. Their backgrounds reflect professional diversity in engineering and education; however, their passion and beliefs in natural food, herbal medicine, and holistic healing diversified their entrepreneurship. Their three children, Jesus Jr., Luisa, and Alex are all busily involved in this million-dollar plus revenue generating business!

Offering free nutritional and wellness advice, low-cost classes, and healthy food to its largely Hispanic residents, Mr. Natural offers a dramatic shift away from the traditional Mexican diet often filled with fat-laden ingredients. The Austin Chronicle voted Mr. Natural "healthiest Mexican lunch specials" in 2002.

Jesus and Maria have a television and radio show where they talk about health and wellness. Most recently, they decided to expand in 2008 with a new 23,000 sq. ft. facility utilizing services from the Texas State University Small Business Development Center through Certified Business Analyst James Kaplan to assist them with guidance and information on SBA's 504/CDC loan program.

Highlights of Financial Results

(Dollars in Thousands)

	Unaudited 2008	Unaudited 2007	% Change
AT END OF FISCAL YEAR			
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 3,880,755	$ 6,095,443	-36.33%
Credit Program Receivables	8,522,941	8,337,462	2.22%
All Other Assets	44,519	62,084	-28.29%
Total Assets	**$ 12,448,215**	**$ 14,494,989**	**-14.12%**
Liability for Loan Guaranties	$ 1,825,551	$ 1,737,860	5.05%
Debt with Treasury	9,473,227	11,383,188	-16.78%
Downward Reestimate Payable to Treasury	466,887	645,826	-27.71%
All Other Liabilities	348,420	325,247	7.12%
Total Liabilities	**12,114,085**	**14,092,121**	**-14.04%**
Unexpended Appropriations	1,696,866	974,211	74.18%
Cumulative Results of Operations	(1,362,736)	(571,343)	-138.51%
Total Net Position	**334,130**	**402,868**	**-17.06%**
Total Liabilities and Net Position	**$ 12,448,215**	**$ 14,494,989**	**-14.12%**
FOR THE FISCAL YEAR			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Expand America's Ownership Society			
Loan Subsidy Cost including Reestimates*	$ 441,919	$ (34,144)	1394.28%
All Other Cost Net of Revenue	404,490	376,361	7.47%
Goal 2: Provide Timely Financial Assistance Affected by Disaster			
Loan Subsidy Cost including Reestimates	351,816	307,462	14.43%
All Other Cost Net of Revenue	233,046	318,912	-26.92%
Goal 3: Improve Economic Environment for Small Business	14,114	24,694	-42,84%
Costs Not Assigned	119,931	67,305	78.19%
Total Net Cost of Operations	**$ 1,565,316**	**$ 1,060,590**	**47.59%**
*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	$ 793,735	$ 273,318	190.41%
Goal 1 Administrative Costs	404,490	376,361	7.47%
Goal 2 Administrative Costs	233,046	318,912	-26.92%
Goal 3 Costs	14,114	24,694	-42.84%
Congressional Initiative Grants	63,065	60,435	4.35%
Other Costs Not Assigned	56,866	6,870	727.74%
Total Net Cost of Operations	**$ 1,565,316**	**$ 1,060,590**	**47.59%**
CONDENSED STATEMENT OF NET POSITION			
Beginning Cumulative Results of Operations	$ (571,343)	$ (773,787)	26.16%
Total Financing Sources	773,923	1,263,034	-38.73%
Less: Net Cost of Operations	1,565,316	1,060,590	47.59%
Ending Cumulative Results	**(1,362,736)**	**(571,343)**	**-138.51%**
Beginning Unexpended Appropriations	974,211	1,839,288	-47.03%
Total Budgetary Financing Sources	722,655	(865,077)	183.54%
Ending Unexpended Appropriations	**1,696,866**	**974,211**	**74.18%**
Ending Net Position	**$ 334,130**	**$ 402,868**	**-17.06%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Net Appropriations & Budget Authority Received, Budgetary	$ 2,060,201	$ 1,164,746	76.88%
Nonbudgetary Borrowing Authority	1,346,805	2,966,102	-54.59%
Unobligated Balances Forward	5,301,144	7,671,028	-30.89%
Other Budgetary Resources, net	401,904	183,011	119.61%
Total Budgetary Resources	**$ 9,110,054**	**$ 11,984,887**	**-23.99%**
Obligations Incurred, Budgetary	$ 1,588,122	$ 2,296,085	-30.83%
Obligations Incurred, Nonbudgetary	4,545,113	4,387,658	3.59%
Balances, Available and Unavailable	2,976,819	5,301,144	-43.85%
Total Status of Budgetary Resources	**$ 9,110,054**	**$ 11,984,887**	**-23.99%**

Analysis of SBA's Systems, Controls and Legal compliance

Internal Control Environment

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:

- 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 (FMFIA) 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 (GAO) and the SBA's Office of the Inspector General (OIG).

The SBA continues to strengthen and improve the execution of our mission through the application of sound internal controls. During FY 2008, the SBA conducted its third annual assessment of internal control to comply with the Office of Management and Budget (OMB)'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 (SAT) chaired by the Chief Financial Officer (CFO) 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.

Based on the evaluation of 16 business processes, the SBA identified a number of deficiencies in the area of internal control over financial reporting. However, only six were systematic. These were:

- The Operation division of the Small Business Investment Company program did not monitor the small business investment companies in a timely manner which may put the SBA at risk of additional liability in the future;
- Some charged-off loans were not referred to Treasury for debt collection in an accurate and timely manner in violation of the Debt Collection Improvement Act of 1996;
- The reconciliation between SBA payroll records and National Finance Center's (NFC) payroll reports was not done on a regular basis to detect errors and/or irregularities (a finding carried over from FY 2007).
- The reviews done by the National Guaranty Purchase Center did not consistently detect lender failures to administer loans in full compliance with SBA requirements and prudent lending practice;
- Inadequate monitoring of Congressional grants (a finding carried over from FY 2007);
- Inaccuracies in 7(a) loan guaranty reporting (a finding carried over from FY 2006).

These findings have been communicated to the responsible offices for remediation. Some of the remediation had taken place by the end of FY 2008. For example, Office of Human Capital Management created action plans to train time and attendance clerks in the field and headquarters on the reconciliation between SBA payroll records and the NFC payroll reports. An advisory notice was sent to the SBA Management Board to solicit its support and engagement to correct this deficiency.

Given the size of its $88 billion loan portfolio, the 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-guaranteed 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, guaranteed loan purchase reviews and reviews of improper payments for business and disaster loans.

Adequate training is an important part of internal control. SBA continues making progress in this area. SBA University offered training courses designed to deliver core and targeted requirements identified in training needs assessments in FY 2008. Nearly 1,200 employees attended the FY 2008 sessions, and 95% of the participants rated their overall SBA University experience as good to excellent. The curriculum included topics such as Communication (Verbal/Written), Conflict Management, Financial Management, Leadership, and Project Management.

In partnership with Department of the Treasury and the Treasury Executive Institute, the SBA held training events for SES and GS-15 leaders focusing on best practices in leadership models, new technologies and executive core competencies.

In addition, Federal Acquisition Certification Training was held for Occupational Series 1102 (Contracting Officers and Procurement Contract Representatives) in several mandatory courses in order to achieve the certification required by the Federal Acquisition Certification in Contracting Program. Additional courses will be offered throughout FY 2009.

Legal Compliance

During the FMFIA Assurance process, the SBA management also identified the following two areas with programmatic problems. Although management has not categorized these as material weaknesses, it is management's opinion that these problems, left uncorrected, could lead to material weaknesses:

- The Office of Business Operations (OBO) has determined that, on occasion, the Department of Procurement and Grants Management (DPGM) may have provided contractors with verbal authority to begin work on a contract or a contract modification that was determined to be urgent, of benefit to the SBA and for which funding was available, without properly documenting such action or ultimately definitizing the contract or modification in a timely manner. To correct this problem OBO/DPGM will add a new chapter to its SOP defining (1) the circumstances in which Undefinitized Contract Actions (UCA) are appropriate and (2) the procedures to effect such an action. Additionally, OBO/DPGM will issue a Policy Notice regarding UCAs requiring the Contracting Officer to obtain written approval from the Head of the Contracting Activity before entering into a UCA or modifying the scope of a contract after performance has begun.
- The mechanisms that the HUBZone program office used to certify and monitor HUBZone firms provided limited assurance that only eligible firms participate in the program. In order to correct this problem, the HUBZone program office:
  - Updated the HUBZone maps and is planning for future map updates, testing and technical support;
  - Put additional procedures in place to collect supporting documentation of all HUBZone applications, program exams and re-certifications. The SBA developed a Desktop Operating Guide that provides directions alerting HUBZone staff of circumstances that warrant the need for additional supporting documentation, OIG referral and/or site visit(s);
  - Program examinations were initiated to include site visits of all HUBZone firms receiving HUBZone contracts in FY2008. This effort began with firms in the Washington, DC Metropolitan area and site visits for the remaining firms will be conducted during FY2009. In addition, Business Process Re- Engineering (BPR) is currently underway to examine the interim procedures. The goal of the BPR is to enhance all the processes, and improve management and oversight;
  - Published the methodology for measuring the economic impact of the HUBZone Program in the Federal Register. The final methodology will be finished and published in a Final Notice to the Federal Register.

Audit Follow-up

The SBA's OIG conducts audits and reviews of the Agency's operations, and the Office of the Chief Financial Officer (OCFO) 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, and posts the status of all open OIG recommendations on the SBA's Intranet for managers' information. In addition, the Agency's financial and program-related internal control has 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 recommendations this year:

- the total number of open OIG audit recommendations was reduced by 35% by the end of the year;
- 30% of GAO open recommendations were closed during the second half of the year; and
- Management made improvements in all Agency management challenges.

During FY 2008, 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. The SBA also continued to strengthen its financial management team through continued communication on emerging issues and training activities. As a result, the SBA's auditor did not report any material weaknesses in the financial reporting process area for two years in a row.

Information Systems

The SBA continues to have a significant deficiency in the information technology (IT) area for information technology security controls. During FY 2008, the SBA made significant progress to address prior-year findings on IT security access controls, by instituting several processes to strengthen security controls and taking a multitude of corrective actions. The Office of the Chief Information Officer (OCIO) closed 24 out of 41 open OIG audit recommendations. In addition, the OCIO made significant progress on SBA Management Challenges scoring green on two critical areas affecting service continuity controls and computer security training. The remedial actions undertaken by OCIO include: (1) providing enhanced computer security awareness training that includes a privacy training module; (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; (9) established a security operations center; (10) laptop encryption; and (11) enhancing the segregation of duties procedures. The majority of these remedial actions have been fully implemented and others are being piloted.

Summary of Financial Statement Audit

Following, as required by OMB Circular A-136, Section II.5.6, is the summary of the SBA's financial statement audit:

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None	$0	$0	N/A	N/A	$0

Management Assurances

FMFIA And FFMIA Assurance Statement For FY 2008

The Small Business Administration continued to strengthen the internal control over its programs and operations during FY 2008. Accountability to our stakeholders and U.S. taxpayers is one of the four pillars of my management philosophy. I am pleased to report that the SBA's internal controls as of September 30, 2008 are operating effectively.

The 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 (FMFIA). 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, 2008, was operating effectively and that no material weakness were found in the design or operation of the internal controls.

In addition, the 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 the 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, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

The Federal Financial Management Improvement Act (FFMIA) 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 2008.

Sandy K. Baruah
Acting Administrator

November 17, 2008

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	$0	$0	N/A	N/A	N/A	$0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	$0	$0	N/A	N/A	N/A	$0
Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	$0	$0	N/A	N/A	N/A	$0
Conformance With Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		

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 (OMB). 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. The SBA's improper payment program and reporting is subject to this guidance. SBA has been rated "green" by OMB on *status* for this initiative since the first quarter of FY 2008 based on previous year results.

The 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. The 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 2008 results confirmed this assessment. For FY 2008, the SBIC program improper payment rate was zero (no improper payments) and the Disaster program improper payment rate was only .74 percent. All SBA's IPIA results in FY 2008 were obtained using testing procedures consistent with OMB guidance. As previously reported to OMB, the 504 program testing was not completed due to the extensive internal controls and the extremely low likelihood of improper payments in this program.

The SBA considers the 7(a) guaranty program to have a medium risk of improper payments due to the delegation of program authority to SBA's lending partners in this nationwide program. For FY 2008, however, the 7(a) guaranty purchase improper payment rate (determined using the OMB testing procedure) was only .53 percent after a .43 percent result in FY 2007. The 7(a) purchase operation includes SBA purchase centers in Herndon, VA, Fresno, CA, and Little Rock, AR that are centrally managed by staff in Washington DC. The SBA tracks the reasons for any improper payments and makes appropriate changes in the purchase operation and quality and accurance procedures to reduce the purchase error rate.

It is important to note that the 7(a) guaranty purchase review contains a number of judgmental considerations concerning whether the originating lender exercised reasonable commercial care and prudence in the execution, servicing and liquidation of the loan in accordance with SBA loan program requirements; and whether or not the lenderís actions or inactions have placed SBA at financial risk or contributed materially to the loan default. Since by definition, every loan submitted for purchase is a defaulted loan, the evaluation of the lenderís exercise of reasonable commercial care is critical and needs to be consistent with the care exercised related to loans that did not default. The exercise of this judgment is critical to the viability of the 7(a) program as lenders can chose whether or not to participate in the 7 (a) program and is especially relevant since over 90% of SBA 7(a) loans are approved by lenders using delegated authority where they make the underwriting decisions.

The SBA OIG is currently conducting an audit of the 7(a) IPIA process and has raised questions related to SBAís conclusion on one of the largest loans in the sample that there was not an improper payment. If that one loan is ultimately concluded to be an improper payment, it could raise the improper payments rate for purchases to over 10%. Their audit is still in the preliminary stage and we look forward to the opportunity to address the questions raised and reach a conclusion that is consistent with the legislative intent of the program. We continue to try to improve and benefit from the IPIA process in terms of the consistency and quality of our purchase reviews. To that end, we will continue to refine and improve our IPIA methodology and use the results to further educate the lending community and improve the consistency and accuracy of our guaranty purchase reviews. Based on the conclusions ultimately reached at the completion of the audit, the guaranty purchase improper payments rate for FY 2008 may be adjusted.

In accordance with OMB guidance, SBA now includes improperly made loan guaranties issued during FY 2008 in its Improper Payment program reporting for its 7(a) and 504 programs. Although these guaranties haven't yet resulted in federal outlays, they could possibly in the future and they are therefore included in the Improper Payment report. Most frequently , the reason for an improper payment in this category would be the lack of appropriate eligibility. The result of SBA's testing for 7(a) and 504 guaranties issued in FY 2008 indicated a zero percent improper payment rate for both programs in this category. The SBIC Improper Payment rate reported above (zero percent) is also for a guaranty program where federal dollars have not been expended yet.

Other Management Information

Summary of the President's Management Agenda

The President's Management Agenda (PMA) 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 as of September 30, 2008 and describes significant achievements for each PMA goal.

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 2008
↓	Declined During FY 2008

	Status	Progress
Human Capital: Improve the Effectiveness of the Workforce		
In FY 2008 SBA completed a 360 Review for grades GS-14, GS-15 and SES. Competency gap analysis were conduced and provided for inclusion in the continuous development and training plans for FY 2009.	Yellow Y	Green G
Commercial Services Management: Promote Competition to Improve Performance		
In FY 2008 due to budgetary constraints and consistent with SBA's submission to OMB of a revised Competitive Sourcing Green Plan, emphasis has been shifted from active competitions to enhancing SBA's post-competition accountability activities. SBA began to put in place mechanisms to conduct Post Competition Accountability and began a validation effort of its largest competitions to date. In FY 2009 SBA continues the validation effort and has identified additional areas for Post Competition Accountability reviews. Also, SBA has identified areas for business process reengineering efforts.	Yellow Y	Yellow Y
Improved Financial Performance: Improve Transparency and Accountability		
In FY 2008 SBA received a clean annual audit report and met reporting deadlines. SBA 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.	Green ↑ G	Green G
Electronic Government: Streamline Services & Improve Communication With the Public		
Over the past year, SBA has steadily improved its score in both categories of the Presidential Management Agenda OMB Scorecard and has consistently maintained green-green for two consecutive quarters. Specific activities that supported this rating include: establishing an interagency team to design, develop, and implement a secure communications plan to support NCS Directive 3-10 Continuity of Government operations; establishment of an IT project management office to strengthen the design, development, and management oversight of IT investments; and the development of Segment Architecture roadmaps representing core mission, business services and enterprise services segmentation of the SBA Enterprise Architecture.	Green ↑ G	Green ↑ G
Improved Program Performance: Align Performance and Resources		
In FY 2008, 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 2010 OMB budget submission.	Green G	Green G
Faith-Based and Community Initiatives: Improve Relationships with Religious & Grassroots Organizations		
In FY 2008 SBA developed and implemented new outreach and technical assistance strategies for the Initiative. We also worked with the White House Office of FBCI on Regional Conferences and Compassion-in-Action Roundtables.	Yellow Y	Yellow ↓ Y
Eliminating Improper Payments: Reduce Erroneous Payments		
SBA attained a "green" rating in the first quarter of FY 2008 as a result of its FY 2007 results. Error rates for all SBA programs have historically been very low. SBA's 7 (a), 504 Certified Development Companies, SBIC and Disaster program all had low rates of Improper Payments again in FY 2008. Future target rates have been established at this level for FY 2009 thru FY 2011.	Green ↑ G	Green G
Improved Credit Management: Improve Oversight of Loan Portfolios		
Improved Credit Management was established as a new initiative in FY 2006. SBA met all its 200 milestones for this initiative including analytics on the disaster loan portfolio and 7a, 504 and some disaster loan program unit costs. The remaining milestone needed to achieve Yellow for Status is to finalize loan program unit costs for disaster loan making.	Red R	Green G

More information on the PMA is available on the following web site - http://www.whitehouse.gov/results/agenda/index.html

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

Please go to www.ExpectMore.gov for detailed information on the status of improvement plans.

Success Story

Supreme Machine
2008 Louisiana Small Business Person of the Year

Scott Allen learned the machining trade through his service in the United States Navy. While in the military, Scott came to understand the importance of precision, quality, and discipline. Upon returning home, Scott worked with machine shops where he sharpened his skill and increased his commitment to superior quality production.

In 2000, at the urging of his wife JoAnna, Scott opened his own machine shop, Supreme Machine. With an initial start-up loan of $11,000, Scott was able to purchase three machines and rent 2500 square feet of shop space. JoAnna soon joined Scott in the thriving business.

Scott's unwavering dedication and determination to improve efficiency while sustaining quality, led him to contact the Louisiana Tech Small Business Development Center for information. The SBDC arranged for a counselor who provided Scott with opportunities and resources to support his business growth. Through the SBDC, Scott was able to have a team of industrial engineering students provide a work station analysis and evaluate the feasibility of integrating more technology into the shop. Scott says this approach gave him a unique perspective by allowing him to see the shop through "fresh eyes" and create an opportunity for change. With improved modifications, net income increased by 31% last year.

Supreme Machine, an active civic and community business partner, celebrates its eighth anniversary. The business now operates 23 machines valued at over $367,000 – quite an achievement from an initial cost of $11,000. From its humble beginning, Supreme Machine now has seven employees with an annual sales growth of 4.5% for 2007.

From one man's dream of quality and commitment, and the unyielding desire to passionately and consistently deliver only superior quality products, one very impressive small business has grown!!