U.S. Small Business Administration

SBA

Your Small Business Resource

AGENCY FINANCIAL REPORT

2009 FISCAL YEAR

FOREWORD

The Government Performance and Results Act, enacted in 1993, requires federal agencies to establish standards for measuring their performance and effectiveness. The law requires agencies to develop annual performance plans that contain quantifiable measures of what they intend to accomplish, and performance reports describing their success in meeting those standards and measures. Since March 2000 performance reports are to be released annually by all CFO agencies.

Since FY 2007, the Small Business Administration has chosen to participate in an alternative approach to OMB's consolidated Performance and Accountability Report. This report, the Agency Financial Report, is the first of three reports required under the alternative program. It has a due date of November 16, 2009; the Annual Performance Report and the Summary Report (titled "Summary of Performance and Financial Information") will be delivered February 2, 2010.

Association of Government Accountants (AGA)
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In recognition of your outstanding efforts in preparing the Small Business Administration

Performance and Accountability Report

for the fiscal years ended
September 30, 2006, 2007 and 2008

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/index.html
Recovery Act - http://www.sba.gov/recovery/index.html

Para información acerca de los programas de la SBA: www.sba.gov/espanol/

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

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(202) 205-6449

2006 2007 2008

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Primer of SBA's Primary Loan Programs

7(a) Loan Guarantees

This is SBA's primary and most flexible loan program. Although it is delivered through commercial lending institutions, it is for businesses that would not otherwise have qualified for a loan through normal lending channels. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. The major types of 7(a) loan programs are: SBAExpress, export loan programs, Rural Lender Advantage program, and the Special Purpose loans program. SBA 7(a) loans can be guaranteed for a variety of general business purposes including working capital, machinery and equipment, furniture and fixtures, and land and building. Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets.

504 CDC Program

The 504 program, provides long-term, fixed rate financing for major assets such as real estate and heavy equipment. The loans provide financing to acquire fixed assets for expansion or modernization. They are delivered by Certified Development Companies, private, non-profit corporations set up to contribute to the economic development of their communities. SBA 504 loans cannot be used for working capital or inventory, or consolidating or repaying debt. The SBA guarantees 100 percent of a loan secured by the CDC, and requires at least a 10 percent owner equity buy-in as well as a non-guarantied loan from a private sector lender.

Microloan Program

This program provides small (up to $35,000) short-term loans for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. It is designed for small businesses and not-for-profit child-care centers needing small scale financing and technical assistance for start-up or expansion, and is delivered through specially designated intermediary lenders (nonprofit organizations with experience in lending and technical assistance). The average loan is about $13,000.

Small Business Investment Companies (SBIC)

SBA's Small Business Investment Company program provides venture capital to small firms. SBICs are privately-owned investment companies that are licensed and regulated by the SBA. The SBA provides financial assistance to SBICs to stimulate and supplement the flow of private equity and long-term debenture funds to small companies. Venture capitalists participate in the program to supplement their own private capital with funds borrowed at favorable rates through SBA's guaranty of SBIC debentures, which are sold to private investors.

Message from the Administrator

November 16, 2009

I am pleased to present the U.S. Small Business Administration's (SBA) FY 2009 Agency Financial Report. The SBA has chosen to produce the Agency Financial Report as an alternative to the consolidated Performance and Accountability Report (PAR). This report details the Agency's efforts in its mission 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 strives to accomplish this mission by aiding, counseling, assisting and protecting the interests of small businesses. The Agency continues to move forward with key goals in areas such as access to capital, opportunities in government contracting, entrepreneurial development, and disaster assistance.

Never before have SBA's activities been more important. A deep recession combined with the financial meltdown of October 2008 led to an extremely difficult environment for entrepreneurs to succeed and for small businesses to survive and grow.

For this reason, Congress and the President included $730 million for the SBA in the American Reinvestment and Recovery Act (Recovery Act) which passed in February 2009. This essentially doubled SBA's annual budget, providing both challenges and opportunities for this relatively small federal agency to help unfreeze the credit lines in the small business lending market. The Recovery Act enhancements to SBA programs supported billions of dollars in lending for tens of thousands of small businesses throughout the country. Also, Recovery Act federal contracting dollars began to flow to the small business community towards the latter half of the fiscal year.

Key SBA accomplishments in FY 2009 include:

Turnaround in SBA lending — The SBA ended the year strongly, with September 2009 having the highest monthly SBA lending volume in two years through the Agency's top two loan programs (7(a) and 504). Average weekly SBA loan volume increased by 60 percent compared to the weeks before the passage of the Recovery Act. Even in a difficult economic time, the SBA was able to provide more than 50,000 loans to small businesses this fiscal year.

Increase in access to capital — Since the passage of the Recovery Act, more than 1,200 lenders who had not made loans since October 2008 returned to SBA lending. In fact, of those lenders more than half had not made SBA loans since 2007.

Increase in small business contracting with federal agencies — Through stronger efforts to coordinate and reach out to other federal agencies, the SBA helped more than 25 percent of all federal agency Recovery Act contracting dollars go to small businesses in FY 2009. This amounted to a total of over $4 billion. This contrasts with 21.5 percent in small business contracting for FY 2008.

Continued elimination of waste, fraud and abuse — Under the Recovery Act, the SBA strengthened its commitment to mitigating risk while eliminating waste, fraud and abuse. The Agency formed senior level teams which systematically identified and reduced risks related to the implementation of Recovery Act initiatives. In addition, the SBA continues to re-engineer the HUBZone contracting program to both improve efficiency and prevent fraud. In FY 2009, the Agency conducted nearly 900 site visites to ensure that participants in the program were legitimate small businesses. Going forward, the SBA will be implementing stronger eligibility verification processes as well as enhancing the ability to pursue and prosecute fraud.

Increase in entrepreneurial education resources — SBA's grant-funded resource partners (about 900 Small Business Development Centers (SBDC), more than 100 Women's Business Centers, and more than 350 chapters of an executive mentoring program called SCORE) continued to experience high demand for their free and/or low cost services from entrepreneurs and small business owners. For example, the SBDCs have seen an increase of five percent, compared to last fiscal year, in the number of "extended engagement" clients who need more than three hours of counseling. The SBA also continued to reach out directly to small business owners through its 68-office network and by developing new tools such as a popular online training module to introduce small business owners to federal contracting.

Continued optimization of disaster assistance resources — The SBA has hired more full time and on-call employees while acquiring critical "surge" space to prepare for a major catastrophe. Also, the Agency has shortened disaster loan processing times, improved information technology capacity, and strengthened its marketing and outreach efforts.

There continue to be many ways in which the Agency can improve its efforts to achieve operational excellence while increasing accountability and transparency. For example, the SBA continues to identify, support and develop new and revised regulations and policies that will ensure that only small businesses are benefiting from SBA contracting programs. The Agency will establish a more streamlined license renewal process for Small Business Investment Companies that continue to support high-growth, high-impact small businesses. The SBA will also continue to steward taxpayer dollars to strengthen areas such as lender oversight, small business exporting, and outreach to underserved populations.

I am pleased to provide an assurance that SBA's financial and performance data in this report are reliable and complete. SBA's auditor issued an unqualified opinion on our FY 2009 financial statements. The auditor did note a material weakness in development and review of the alignment entry which adjusts the net receivables for defaulted loan guaranties and liability for loan guaranties to their net present value. This error was immediately corrected and the SBA is instituting a process to ensure that this does not recur.

Overall, the Agency is renewing its commitment in FY 2010 to promote the growth, innovation and global competitiveness of the U.S. small business community as it leads the country out of recession and into recovery and prosperity in the 21st century.

Sincerely,

Karen G. Mills
Administrator

U.S. Small Business Administration

SBA

Your Small Business Resource

MANAGEMENT'S DISCUSSION AND ANALYSIS

Success Story

Beating the Odds

ASSET Group, Inc., Oklahoma City, Oklahoma

Jeanna Sellmeyer's story is one of beating the odds and coming back on top. She has survived daunting obstacles to lead her company, the ASSET Group, Inc., to to become one of the region's most successful federal construction and remediation contractors. The company has nearly 100 employees, more than $45 million in revenue and backlogs, and project locations from California to Florida.

An Oklahoma native, Jeanna founded ASSET in 1990 as an environmental remediation firm that provides asbestos, lead based paint, hazardous materials and mold remediation services to private and commercial clients. The company posted annual revenues under $500,000 for its first ten years and operated from offices in California. It was during this time that Jeanna was diagnosed with a brain tumor. Fortunately, her surgery was successful and led to a renewed sense of purpose. "I had time to think about what to do next and decided I wanted to expand my business to pursue construction and set my sights on federal contracts." In 1999, the company became 8(a) certified as a minority, woman owned small business. This year Jeanna was honored by the SBA as the 2009 National Small Business Person of the Year.

Executive Summary

The SBA acts as a direct lender or guarantor of small business loans and provides management and technical assistance and contracting opportunities to small businesses. The Agency also provides disaster assistance to communities that have undergone catastrophes with the intention of rebuilding the devastated economy and community simultaneously.

In the past year, the SBA played a critical role in reviving the nation's economy. When Congress passed the American Reinvestment and Recovery Act, it identified the SBA as an agency that was vital to the stabilization of the economy and provided the Agency with an opportunity to expand some of its current programs and develop new programs in response to the crisis. The SBA is currently reporting on the success of these programs on Recovery.gov and on SBA.gov/recovery.

Financial Results

The SBA is the smallest of the federal credit agencies. Its budget for FY 2009 was $12.3 billion, with $4.9 billion for budgetary resources and $7.4 billion for loan financing (nonbudgetary). As of September 30, 2009, the SBA had guaranteed $62.2 billion of loan principal, up 0.8 percent from the $61.7 billion guaranteed as of September 30, 2008. At the end of FY 2009, the total outstanding balance of SBA's total loan portfolio was $90.5 billion, an increase of 2.7 percent above FY 2008. SBA's portfolio has increased 70 percent since FY 2001, and loan program receivables, which are comprised of business and disaster direct loans and defaulted guarantied loans, have also increased. These receivables were valued at $9.1 billion this year, an increase of 7 percent over last fiscal year. An additional growth is expected in receivables through Recovery Act direct loans and defaulted loan guaranties.

The Agency received an unqualified audit opinion in FY 2009. The FY 2009 audit found one material internal control weakness in SBA's financial reporting which is discussed in the "Message from the Chief Financial Officer" letter and the "Independent Auditors' Report on FY 2009 Financial Statements." During FY 2009, SBA's Office of Internal Controls continued to improve the quality of financial reporting and credit subsidy cost modeling for both regular programs and for the Recovery Act programs. Also, the Agency reviewed the issues raised in its FY 2008 financial audit and addressed the significant deficiency in information systems security, however, this continued to be a significant deficiency in FY 2009 audit results. The SBA continues to place a high priority on transparency and accountability through accurate and timely financial reporting.

Improper payments in SBA's Disaster and 7(a) guaranty purchase programs were audited by the Inspector General. FY 2008 results for the 7(a) guaranty purchase program were restated this year. Improper payment rates for 7(a) guaranty purchases increased to 3.8 percent in FY 2009 and the rates for Disaster loans disbursed increased to 20.9 percent in FY 2009.

Program Results

During FY 2009, the SBA reached out to struggling small businesses and provided them with funding through either regular SBA programs or through Recovery Act programs. Despite the economic downturn, the SBA approved 44,222 7(a) loan guaranties and 6,608 Section 504 CDC debenture guaranties, for a total of 50,830 in business loan guaranties. This access to capital provided small businesses with the necessary financial support to survive the economic downturn.

The SBA continued to advocate for small businesses pursuing government contracting opportunities. Congress has given the Agency the responsibility of overseeing the government-wide small business goal setting program. In FY 2008, federal agencies reported that $93.3 billion in federal prime contract dollars went to small businesses. This is a $10.1 billion increase from FY 2007 ($83.2 billion). Also, the Agency continues to make progress with its process re-engineering of the HUBZone program, a program which advocates for small businesses located in disadvantaged areas.

SBA's resources partners — the Small Business Development Centers, Women's Business Centers, and SCORE — provided counseling and expertise to an estimated 1.1 million small business and entrepreneurs. These resource partners provide guidance in 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. The SBA provided $128 million in FY 2009 in grant funding for these programs to provide necessary, targeted technical services to entrepreneurs throughout the nation. Additionally, an estimated 600,000 users will access free online courses through SBA's Small Business Training Network.

For FY 2009, the SBA approved 21,780 Disaster loans for $1.2 billion. The Disaster Assistance program uses a new electronic application process which represents 36 percent of applications received; this application has improved the responsiveness and efficiency of SBA's disaster assistance operations.

Management Results

The SBA continues to work with its program offices to provide the best possible measures of performance. In FY 2009, the Agency was also tasked with monitoring and reporting performance of the Recovery Act programs. The SBA has worked closely with the Office of Management and Budget to provide an accurate assessment of program activity to the President, Congress, and the public.

The SBA is also working with OMB to develop high priority performance goals and has submitted potential goals for OMB review.

Success Story

Veterans Provide Contracting Services

L & D Johnson Plumbing & Heating, Inc., Buffalo, New York

L&D Johnson Plumbing & Heating, Inc. is a certified SDVOSB, MBE, DBE & 8(a) contractor. The company was started by Lenny Johnson, President and CEO, and Don Johnson, Vice President, in 1999. With an initial investment of $7,500, the company has grown to a staff of 24 and has taken on work in excess of three million dollars.

As a service disabled veteran company, L&D Johnson Plumbing & Heating, Inc. works as a commercial contracting company with small jobs that range from school plumbing and remodeling to larger jobs, such as the complete floor renovation of a VA Hospital.

L&D Johnson Plumbing & Heating, Inc. has extensive experience as the prime contractor in numerous areas that include plumbing, heating, abatement, demolition and general construction. In addition to the government contracted jobs, L&D Johnson Plumbing & Heating, Inc. continues to work in the public sector with local school districts and businesses.

The mission of L&D Johnson Plumbing & Heating Inc. is to provide a reliable service and to maintain hard working standards to better serve the public sectors.

(All Dollars in Milions)		FY 2006	FY 2007	FY 2008	FY 2009
Financial Assistance					
7(a) Regular Loans (1)	Dollars of Loans Approved	$ 14,528	$ 14,292	$ 12,671	$ 9,191
504 Regular Loans (1)	Dollars of Loans Approved	$ 5,730	$ 6,314	$ 5,290	$ 3,834
Microloans	Dollars of Loans Approved	$ 19	$ 21	$ 20	$ 23
SBIC	Dollars of Financings Approved	$ 477	$ 759	$ 1,030	$ 788
7(a) Loans (1)	Number of New Loans Approved	97,291	99,606	69,434	41,289
504 Loans (1)	Number of New Loans Approved	9,943	10,669	8,883	6,608
Microloans	Number of New Loans Approved	2,395	2,427	2,682	2,715
SBIC	Number of Small Businesses Financed	2,121	2,057	1,905	1,481
Disaster Assistance (1)					
Disaster	Dollars of Loans Approved	$ 11,675	$ 1,407	$ 954	$ 1,208
Disaster	Number of Loans Approved	137,803	13,716	15,128	21,780
Total Portfolio (1) (2)					
Total	Total Outstanding Principal Balance	$ 78,107	$ 84,512	$ 88,095	$ 90,451
Management Assistance					
SCORE	Number Small Businesses Assisted	308,710	336,411	360,559	380,357
SBDC (5)	Number Small Businesses Assisted	667,660	600,665	558,487	583,770
WBC (6)	Number Small Businesses Assisted	129,373	146,828	159,879	155,383
Procurement Assistance					
Prime Contracting (3)	Annual Value of Federal Contracts	$ 77,670	$ 83,275	$ 93,305	N/A
Surety Bond	Number of Final Bonds Guaranteed	1,706	1,640	1,576	1,220
HubZone (3)	Annual Value of Federal Contracts	$ 7,162	$ 8,463	$ 10,157	N/A
8(a) Program (3)	Number of Small Businesses Assisted	9,600	9,479	9,462	N/A
Regulatory Assistance					
Advocacy (4)	Regulatory Cost Savings	$ 7,250	$ 2,568	$ 10,760	$ 6,990

(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 guarantied 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 get initially approved and then decline the loan because they receive insurance payments; they are awarded grants; or they decide not to rebuild.

(2) This includes all Disaster and Business Loans.

(3) Federal agencies have not yet certified their FY 2009 data. The SBA expects to receive the FY 2009 certified data by the 3rd or 4th quarter of FY 2010.

(4) The FY 2009 number will be finalized in February 2010 in Advocacy's annual report to Congress.

(5) The number of small businesses assited by Small Business Development Centers is slightly understated as two centers had not submitted 4th quarter activity at the time of this report.

(6) The number of small businesses assisted by Women's Business Centers has been annually trending upward. The decline in 2009 is atributable to several centers exiting the program.

N/A - Not Available

SBA's History and Organization

Congress created the U.S. Small Business Administration in 1953 to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property. SBA'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. Agency programs also include management assistance and specialized outreach to veterans, women and underserved markets. Since its inception, the SBA has made or guaranteed in excess of $211 billion in business loans.

The disaster loan program is the only form of SBA assistance that is not limited to small businesses. Disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations to fund rebuilding and recovery efforts. The Agency does this by focusing on the restoration of real and personal property and assisting businesses to return to operations as quickly as possible. On average, the Agency makes disaster loans totaling approximately $1 billion each year and has an active portfolio of about $8.4 billion. Since its inception, the SBA has approved over 1.8 million disaster loans for over $47 billion.

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

Organization by Key Assistance Areas

The SBA is an organization with a nationwide presence. Its 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 and Technical Assistance, Disaster Assistance and Regulatory Assistance. The category of Other Assistance captures all other activities. Following are brief descriptions of the SBA offices and some of the products and services they provide.

Financial Assistance

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504 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 business in obtaining federal procurement opportunities through the government-wide Prime and Subcontracting programs. Additionally, the 8(a) Business Development program assists small businesses to be better prepared to take advantage of procurement opportunities. GC/BD also sets size standards for small businesses which determine when a business will be considered a small business.

Management and Technical Assistance

The Office of Entrepreneurial Development provides business counseling and training through its partners 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 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 businesses to advance their views, concerns, and interests before Congress, the federal government, federal courts and state policy makers.

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

Other Assistance

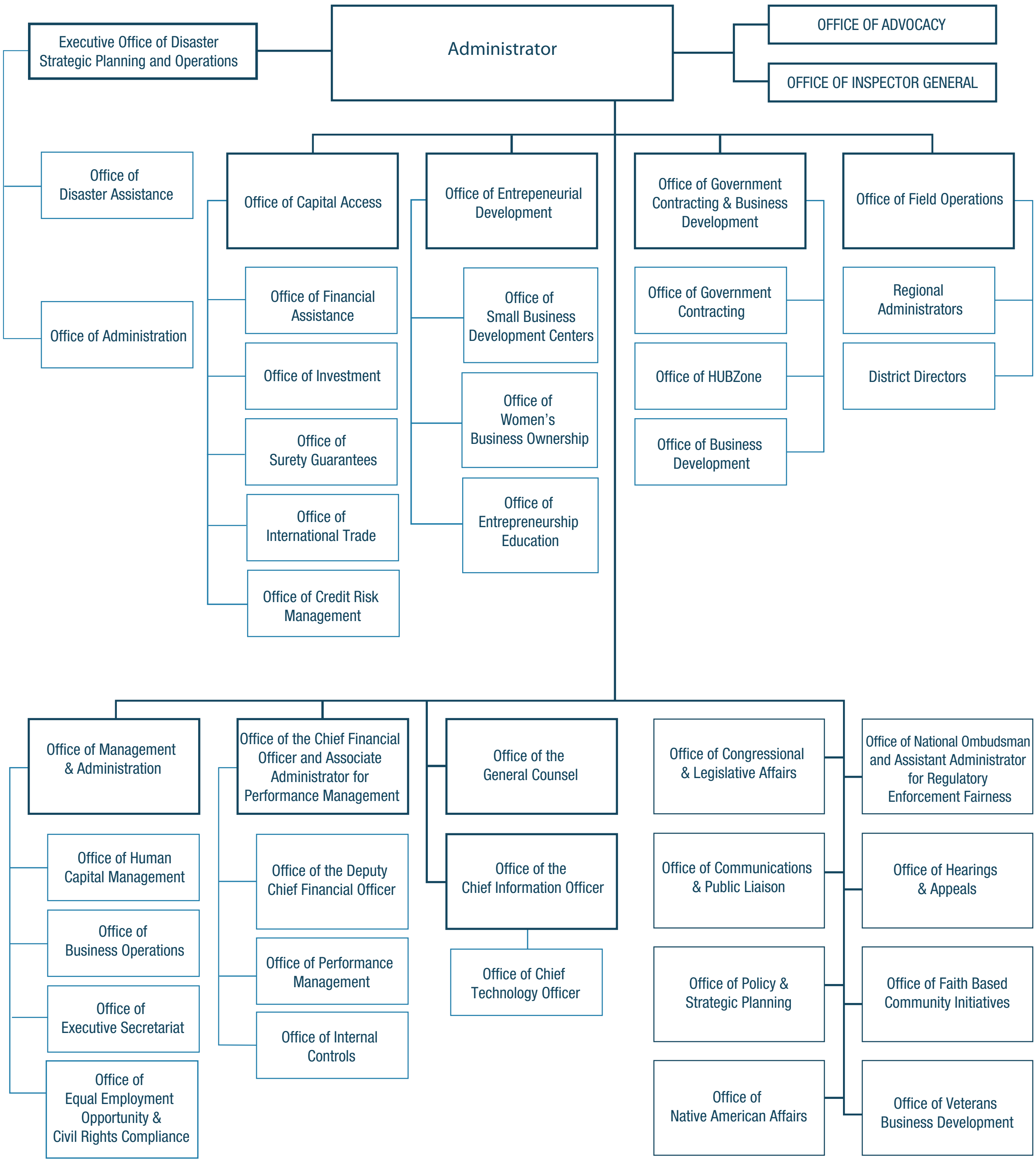
The Office of Veterans Business Development formulates and delivers policies and programs that provide assistance to veterans seeking to start and develop small businesses.

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

What do Vermont Teddy Bear, Vera Bradley Designs and the Jelly Belly Candy Co. have in common? They have all benefited from advice and counsel through SCORE – an SBA resource partner whose members serve as advisors and mentors to aspiring entrepreneurs and business owners. These services are offered at no fee. Learn more at www.score.org.

ORGANIZATION CHART



Analysis and Highlights of Financial Statements

Highlights of Financial Results

(Dollars in Thousands)	Unaudited		% Change
At End of Fiscal Year	**FY 2009**	**FY 2008**	
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 3,469,465	$ 3,880,755	-10.60%
Credit Program Receivables	9,128,496	8,522,941	7.11%
All Other Assets	28,498	44,519	-35.99%
Total Assets	**$ 12,626,459**	**$ 12,448,215**	**1.43%**
Liability for Loan Guaranties	$ 3,994,636	$ 1,825,551	118.82%
Debt with Treasury	10,878,283	9,473,227	14.83%
Downward Reestimate Payable to Treasury	64,875	466,887	-86.10%
All Other Liabilities	377,265	348,420	8.28%
Total Liabilities	**15,315,059**	**12,114,085**	**26.42%**
Unexpended Appropriations	1,983,504	1,696,866	16.89%
Cumulative Results of Operations	(4,672,104)	(1,362,736)	-242.85%
Total Net Position	**(2,688,600)**	**334,130**	**-904.66%**
Total Liabilities and Net Position	**$ 12,626,459**	**$ 12,448,215**	**1.43%**
For the Fiscal Year			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Expand America's Ownership Society			
Loan Subsidy Cost including Reestimates	$ 4,803,699	$ 441,919	987.01%
All Other Cost Net of Revenue	439,889	404,490	8.75%
Goal 2: Provide Timely Financial Assistance Affected by Disaster			
Loan Subsidy Cost including	354,947	351,816	0.89%
All Other Cost Net of Revenue	320,381	233,046	37.48%
Goal 3: Improve Economic Environment for Small Business	14,506	14,114	2.78%
Costs Not Assigned	62,294	119,931	-48.06%
Total Net Cost of Operations	**$ 5,995,716**	**$ 1,565,316**	**283.04%**
STATEMENT OF NET COST BY EXPENSE TYPE			
Loan Subsidy Cost and Required Annual Reestimates	$ 5,158,646	$ 793,735	549.92%
Goal 1 Administrative Costs	439,889	404,490	8.75%
Goal 2 Administrative Costs	320,381	233,046	37.48%
Goal 3 Costs	14,506	14,114	2.78%
Congressional Initiative Grants	43,635	63,065	-30.81%
Other Costs Not Assigned	18,659	56,866	-67.19%
Total Net Cost of Operations	**$ 5,995,716**	**$ 1,565,316**	**283.04%**
CONDENSED STATEMENT OF NET POSITION			
Beginning Cumulative Results of Operations	$ (1,362,736)	$ (571,343)	-138.51%
Total Financing Sources	2,686,348	773,923	247.11%
Less: Net Cost of Operations	5,995,716	1,565,316	283.04%
Ending Cumulative Results	**(4,672,104)**	**(1,362,736)**	**-242.85%**
Beginning Unexpended Appropriations	1,696,866	974,211	74.18%
Total Budgetary Financing Sources	286,638	722,655	-60.34%
Ending Unexpended Appropriations	**1,983,504**	**1,696,866**	**16.89%**
Ending Net Position	**$ (2,688,600)**	**$ 334,130**	**-904.66%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Net Appropriations & Budget Authority Received, Budgetary	$ 3,050,068	$ 2,060,201	48.05%
Nonbudgetary Borrowing Authority	3,455,566	1,346,805	156.58%
Unobligated Balances Forward	2,976,819	5,301,144	-43.85%
Other Budgetary Resources, net	2,854,602	401,904	610.27%
Total Budgetary Resources	**$ 12,337,055**	**$ 9,110,054**	**35.42%**
Obligations Incurred, Budgetary	3,453,667	1,588,122	117.47%
Obligations Incurred, Nonbudgetary	6,181,465	4,545,113	36.00%
Balances, Available and Unavailable	2,701,923	2,976,819	-9.23%
Total Status of Budgetary Resources	**$ 12,337,055**	**$ 9,110,054**	**35.42%**

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. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

This analysis is intended to help readers understand the Agency'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. The Highlights of Financial Results chart provides a condensed summary of the balances in the financial statements for the current and prior year and the percentage change.

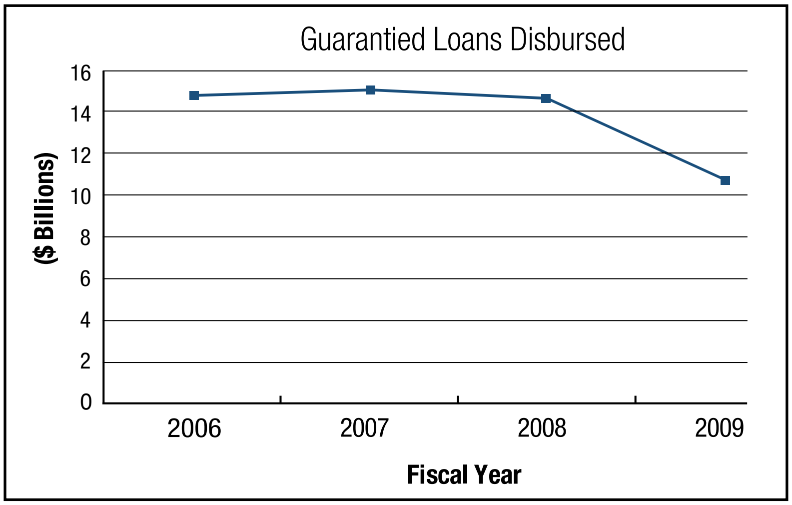
The Portfolio Analysis section in this MD&A discusses in some detail the major trends impacting SBA's portfolio of loan guaranties and receivables. The purpose of this section is to provide an operational analysis of SBA's credit programs, rather than a financial statement analysis. As a result, the 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 is used in the 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 2009 SBA's available budgetary resources were $4.9 billion, and nonbudgetary resources in the loan financing funds were $7.4 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.

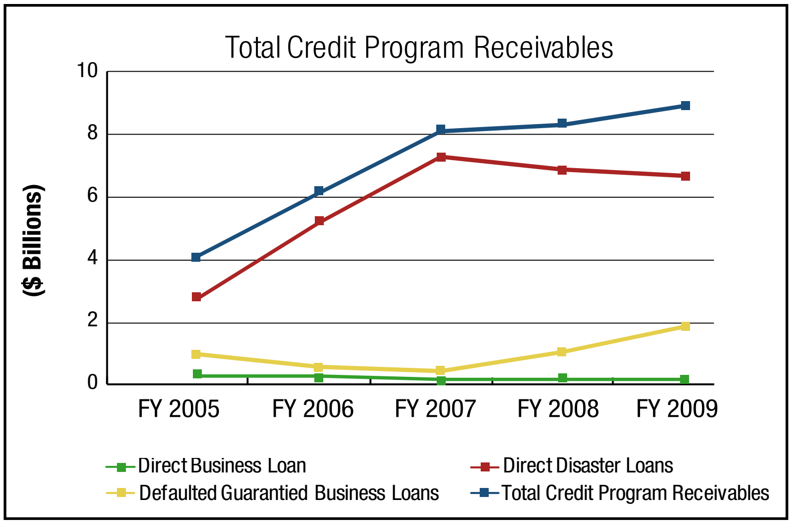
The portion of the outstanding principal guaranteed by the SBA as of September 30, 2009 was $62.2 billion. This amount is up 0.81 percent from the $61.7 billion guaranteed at September 30, 2008. The downturn in the nation's economy in FY 2009, however, impacted the demand for SBA loans and resulted in a decrease in the approval and disbursement of new SBA guarantied loans. New guaranties disbursed by SBA participating banks during FY 2009 were down 30 percent compared to FY 2008 (see footnote 6C for further detail on loans disbursed and outstanding at year end). **Chart I** depicts the downward trend in guarantied loans disbursed during FY 2009. However, despite the steep drop in the guarantied loans disbursed overall for the fiscal year, there was an improvement in the end of the fiscal year due to the improvement in the economic and credit market conditions and the Recovery Act legislation. In February 2009, as part of the recovery package, Congress allocated $730 million for the SBA to provide new lending incentives that included the Agency temporarily waiving its fees and increasing the guaranties it offers banks on 7(a) loans.

CHART I



SBA's portfolio of loans receivable continued to grow in FY 2009. Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs. These receivables were valued at $9.1 billion in FY 2009, an increase of 7 percent over last fiscal year. As reflected in **Chart II**, the primary reason for the increase in credit program receivables from FY 2008 to FY 2009 is due to an increase in defaulted guarantied business loans.

CHART II



This increase resulted from increased purchases as a result of the downturn in the economy and credit markets during FY 2009. Purchases of SBA's share of defaulted guarantied loans increased from $2.1 billion in FY 2008 to $3.9 billion in FY 2009.

SBA's assets and liabilities result primarily 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 the Public Debt. Borrowings are repaid to the Treasury as loans are repaid to the SBA.

Financial Position

ASSETS

The SBA had total assets of $12.6 billion at the end of FY 2009, up 1.4 percent from FY 2008. Assets increased primarily due to a $0.6 billion increase in the Credit Program Receivables because of the large increase in the number of defaulted guarantied business loans. This increase in defaulted guarantied business loans resulted from increased purchases as a result of the downturn in the economy and credit markets during FY 2009. 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 $15.3 billion at the end of FY 2009, up 26 percent from FY 2008. 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. The Liability for Loan Guaranties increased $2.2 billion primarily due to the year end reestimate (offset partially by claim payments). There was a net upward reestimate of $4.7 billion in the loan guaranty program at September 30, 2009. Please refer to the following Results of Operations section which discusses the impact of the reestimates and to the chart in Note 6E of the financial statements which reconciles this account.

Debt with Treasury increased $1.4 billion as a result of borrowings to cover the increases in purchases of defaulted loans. Purchases of SBA's share of defaulted guarantied loans increased from $2.1 billion to $3.9 billion from FY 2008 to FY 2009. Due to this unexpected surge in purchases, the SBA borrowed funds from Treasury to cover the purchases.

NET POSITION

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations, decreased in FY 2009 to $2.7 billion. 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 $4.67 billion at the end of FY 2009 (from $1.36 billion last year) due to unfunded upward subsidy reestimates that increased in FY 2009 on the 7(a) loan guaranty and the 504 CDC program from FY 2008. 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 $286.6 million this year because the appropriations used in FY 2009 were less than the appropriations received. This is primarily due to funding in the Recovery Act of February 2009 that provided $730 million of appropriations to the SBA in order to stimulate small business lending.

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 year end. 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 Federal Credit Reform Act, 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 2009, the reestimated cost for the 7(a) and the 504 loan programs significantly increased (guarantied business loan program, Strategic Goal 1). Those increases were the largest components of the change (net increase) in the Agency's net cost. **Chart III** reflects the increases in the reestimates for the Disaster direct programs as well as the guarantied business loan program from FY 2008 to FY 2009.

CHART III

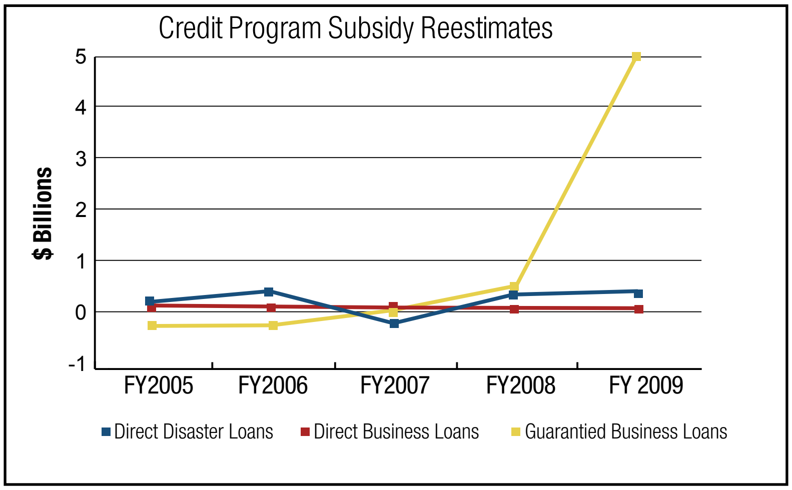
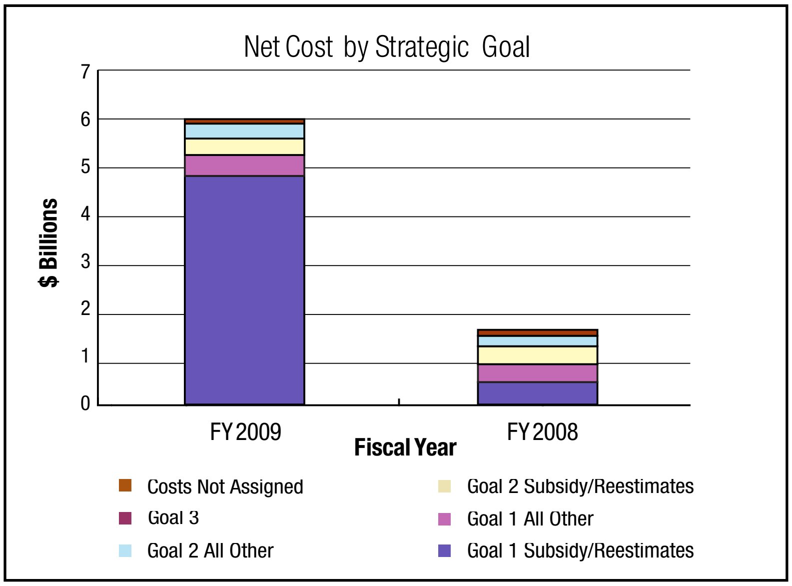


CHART IV



The increase in the overall Net Cost from FY 2008 to FY 2009 (see **Chart IV**) is primarily due to the increase in Strategic Goal 1 from the upward reestimates for the business loan guaranty programs in FY 2009. The 7(a) loan guaranty program and the 504 loan program both had significant upward reestimates as well as a significant change in the SBIC program from a downward reestimate in FY 2008 to an upward reestimate in FY 2009. The 7(a) loan program, SBA's flagship and largest program, had the largest net upward reestimates for the guarantied business loan programs in FY 2009 at $2.03 billion. The 504 Certified Development Companies program had net upward reestimates of $1.57 billion. For both programs, the net upward reestimates were mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The SBIC debentures program had net upward reestimates of $66.6 million. The reestimates were mostly due to lower than projected recoveries during FY 2009 and a decrease in projected recoveries for the remaining years within the cohorts.

The SBIC participating securities program had a net upward reestimate of $960.2 million. The reestimates were mostly due to the downturn in the economy that resulted in lower than projected recoveries and higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The secondary market guaranty program had a net downward reestimate of $50.8 million. This downward reestimate was due in part to the lower than projected interest rate paid to investors during FY 2009 and a decrease in the projected interest rate paid to investors for the remaining years within the cohorts.

The 7(a) and 504 Recovery Act programs had net upward reestimates of $72.4 million and $25.2 million respectively. These upward reestimates are mostly due to updated model and economic assumptions since the original budget estimates. The updated assumptions result in an increase in projected purchases for the remaining years within the cohorts.

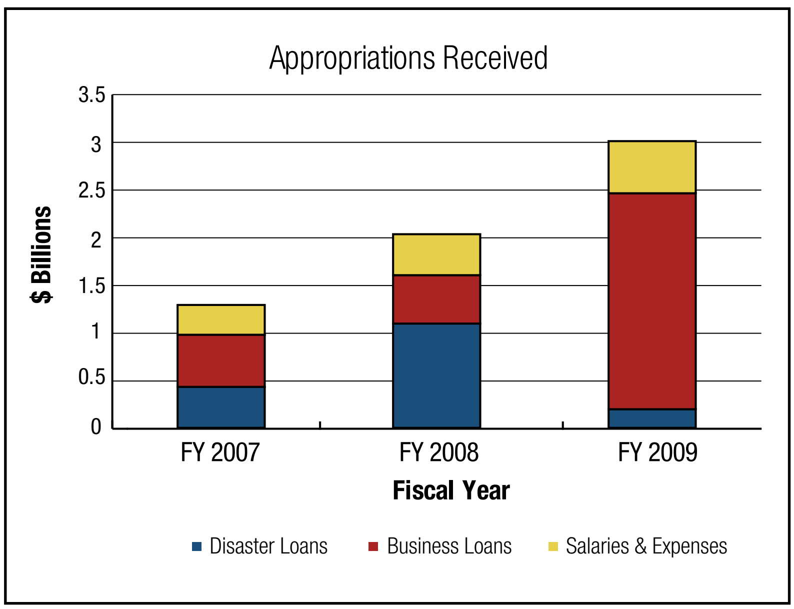
There was also an increase in Strategic Goal 1 in subsidy expense incurred during FY 2009. This is due to the use of subsidy associated with the Recovery Act. The Recovery Act allocated $636 million of subsidy for loan guaranties. In FY 2008, there was no subsidy provided for the guarantied business loan programs. The reestimates, however, accounted for most of the change in Strategic Goal 1.

Strategic Goal 2 includes a net upward reestimate in the Disaster direct loan program at year end and an increase in administrative expenses during FY 2009 offset by a decrease in subsidy expenses. The Disaster program had net upward reestimates of $231.1 million primarily in the 2006 cohort that mostly consists of loans for the Gulf Coast hurricanes of 2005. Those loans currently account for about 55 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 2009 that resulted in an increase in projected defaults.

Budgetary Resources

Total Budgetary Resources increased $3.2 billion from FY 2008 to FY 2009. This increase is reflected by increases in Borrowing Authority and Appropriations Received. Borrowing Authority increased by $2.1 billion in FY 2009 from FY 2008 as a result of borrowing to cover increases in purchases of defaulted loans. Purchases of SBA's share of defaulted guarantied loans increased from $2.1 billion to $3.9 billion from FY 2008 to FY 2009. Due to this unexpected surge in purchases, the SBA was required to borrow funds from Treasury to cover these purchases (see explanation for Debt with Treasury). Appropriations Received increased $1 billion from FY 2008 to FY 2009. The increase in Appropriations Received correlates with the increase in Unexpended Appropriations due to the funding in the Recovery Act legislation. In February 2009, as part of the stimulus package, Congress allocated $730 million for the SBA to provide new lending incentives including the Agency temporarily waiving its fees and increasing the guaranties it offers banks on 7(a) loans. **Chart V** depicts that the substantial increase in Appropriations Received is for business loans due to the Recovery Act. It also reflects the decrease in funding for disaster loans because, in September 2008, the Disaster Relief and Recovery Supplemental Appropriation Act had provided appropriations of $799 million for the SBA.

CHART V



Status of Budgetary Resources

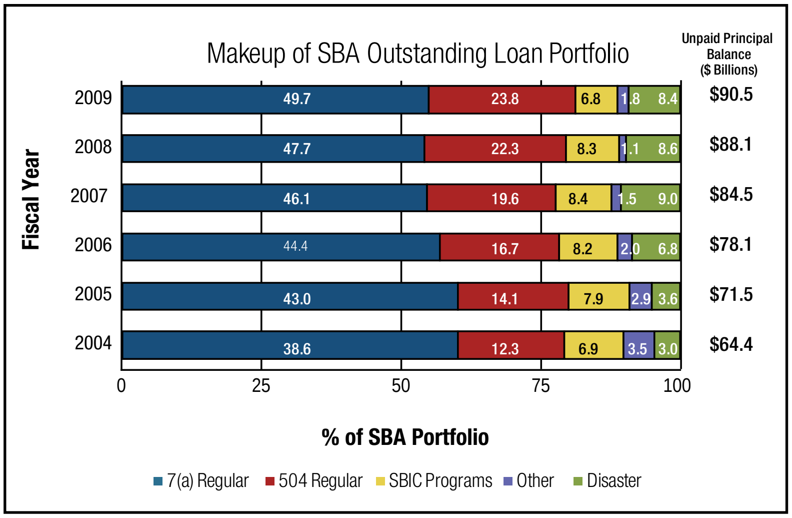
Total Status of Budgetary Resources increased $3.2 billion from FY 2008 to FY 2009. This increase correlates with the increase in the borrowing authority for business loans to cover the increase in purchases as well as the increase in credit program receivables for defaulted guarantied business loans. The SBA expects to continue to see an increase in obligations related to purchases of defaulted guarantied business loans due to the downturn in the economy.

Operational Portfolio Analysis

PORTFOLIO ANALYSIS

The SBA is the taxpayers' custodian of a loan portfolio of $90.5 billion, as shown in **Chart VI**. This portfolio of outstanding principal loan amounts includes both guarantied and direct business loans as well as direct disaster loans. SBA's two flagship guaranty business loan programs, 7(a) and 504, continue to comprise roughly 80 percent of its outstanding loan portfolio. These two programs have also been the key drivers of growth in the portfolio, accounting for 82 percent of the portfolio's growth in the past five years. In FY 2009, while the overall portfolio grew by $2.4 billion, the 7(a) and 504 sections grew $2.7 billion, more than offsetting declines in other sections of the portfolio. The overall growth rate has slowed considerably over the last few years, from 8.2 percent in FY 2007 to 4.2 percent in FY 2008 to a low of 2.7 percent in FY 2009. This slackening of the growth rate is most likely due to the decline in economic conditions that began with the housing market crash in the fall of 2007 and its subsequent spread into the general credit market in October 2008. The disaster portfolio shrunk for the second straight year, decreasing in size by 2 percent, or roughly $200 million, in FY 2009. While major natural disasters like Hurricanes Gustav and Ike and the Midwest floods caused new demand for disaster loans, repayments on loans from previous disasters led to an overall drop in the disaster portfolio's balance.

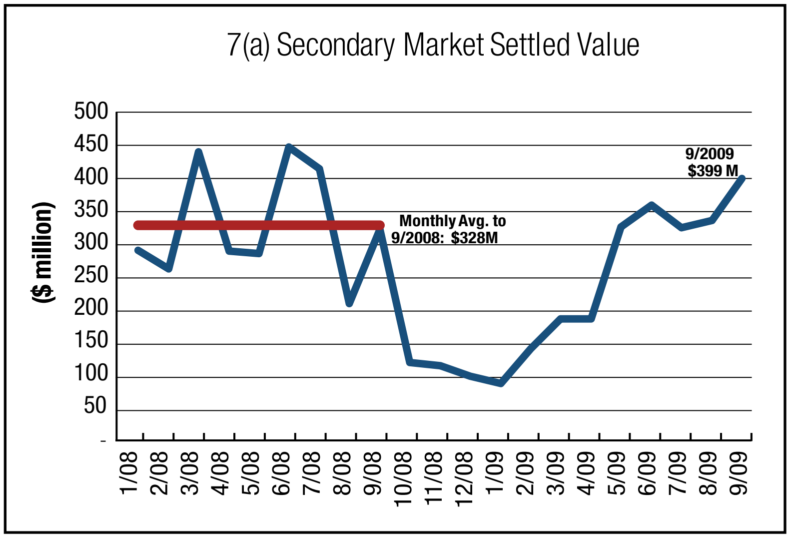
CHART VI



SBA LOAN VOLUME IN THE CURRENT ECONOMY

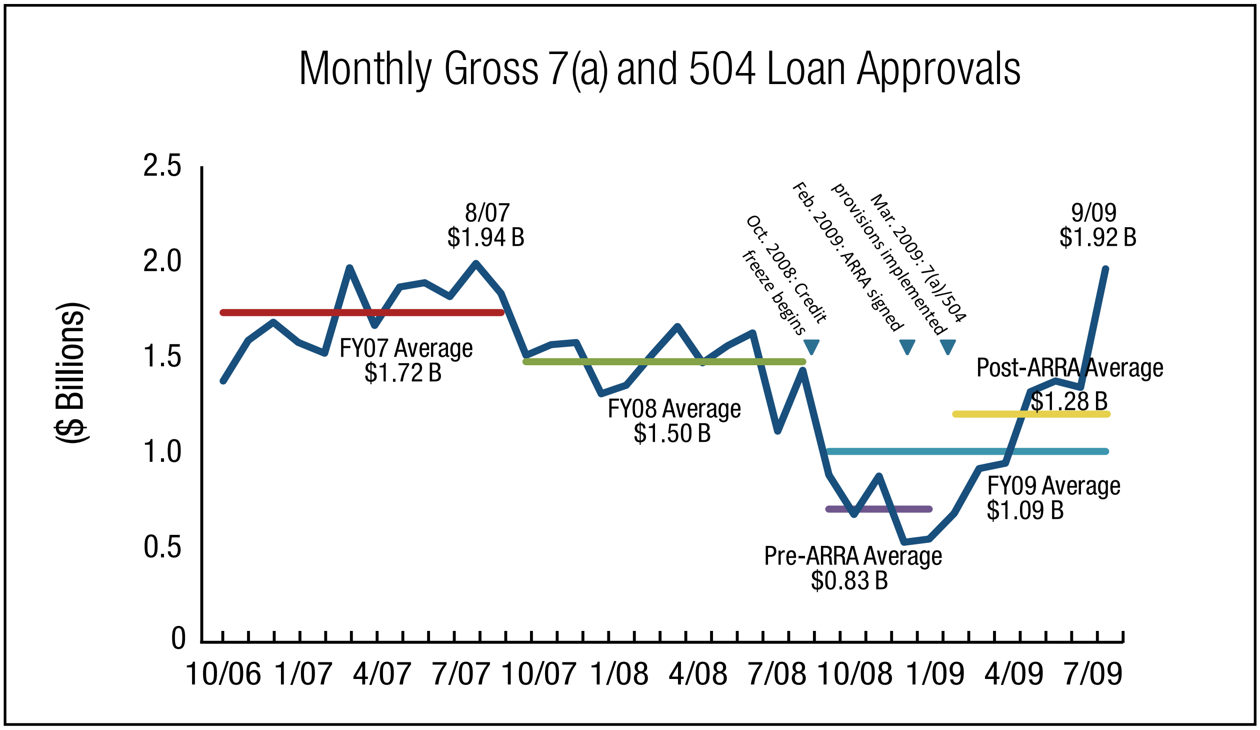
The downturn in the nation's housing market that began in the middle of FY 2006 turned into a broad economic contraction in early 2008 and into a general credit crisis in the opening months of FY 2009. The severe contraction in the economy and in the credit markets drastically affected SBA's loan volume. Many lenders can increase the number of SBA-guarantied loans they offer by securitizing their existing SBA guaranties and selling them on the secondary market to investors. When the collapse of Lehman Brothers in the fall of 2008 provoked a crisis of confidence in banking circles, the entire secondary market of asset-backed securities (securitized bundles of SBA-guarantied loans) nearly froze. As shown in **Chart VII**, monthly volume in the 7(a) secondary market fell from its FY 2008 average of $328 million to an average of a little over $100 million for the months of October to January.

CHART VII



Since many banks use the capital raised on the secondary market to lend more SBA loans, the precipitous drop in the monthly volume in the secondary market filtered into a slowdown in the primary market for small business loans. As a result, lending supply slowed considerably. Simultaneously, as the financial crisis spread across the real sectors of the economy, small business revenues, cash flows, asset prices and ultimately loan demand declined. As seen in **Chart VIII**, the monthly gross loan approval average for the 7(a) and 504 programs had nearly halved from a FY 2008 average of $1.5 billion to $830 million for the months of October 2008 to January 2009.

CHART VIII



RECOVERY ACT INFLUENCE ON LOAN VOLUME

With the passage of the Recovery Act on February 17, 2009, the SBA eliminated fees for borrowers on SBA 7(a) loans and for both borrowers and lenders on 504 Certified Development Company loans. The Agency also raised the guaranty on 7(a) loans up to 90 percent. These measures stimulated small business lending, and the past six months has seen increasing monthly loan approval volumes. By the third quarter of FY 2009, monthly volumes were at nearly the same level as before the credit freeze which began in October 2008. The last month of FY 2009, September, saw monthly gross loan approvals of $1.92 billion, the highest month on record since August of 2007, before the housing market downturn. In addition to the increased volume of lending, the secondary market began to thaw as well. One measure of the secondary market demand is the premiums investors are willing to pay. In August 2009, 83 percent of loans settled were sold at or above premiums of 106, the highest share since August 2007. By comparison, zero loans in the months of January or February were sold at premiums at or above 106.

POSSIBLE REASONS FOR SLOW GROWTH OF SBA'S LOAN PORTFOLIO

According to the Senior Loan Officer Opinion Surveys released by the Federal Reserve Board, credit standards continued to tighten for commercial loans to small firms. The primary reason given was the less favorable or more uncertain economic outlook and also because of a reduced appetite for risk. Corollary to this finding, senior loan officers noted that the decline in lending was due not only to the tightening of the loan supply but also to a weakened demand for loans.

As evidenced by **Chart IX**, for years the SBA loan approval volumes have closely tracked the Case-Shiller National Housing Price Index. When the housing market bubble burst in 2007, the precipitous drop in housing prices found its way into the world of small business. Many first-time entrepreneurs use the equity they have built in their houses as the collateral for their small business loans. As that equity shriveled, demand for small business loans had a corresponding decline.

CHART IX

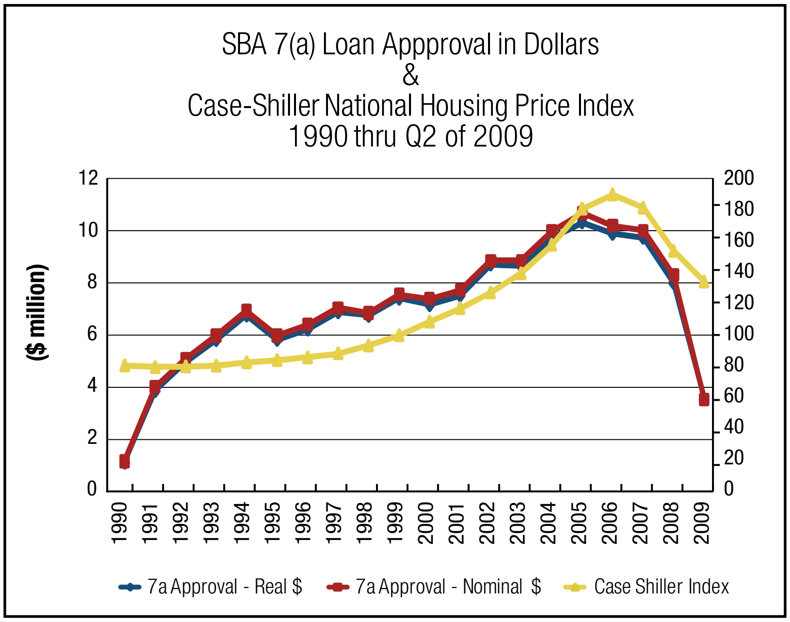
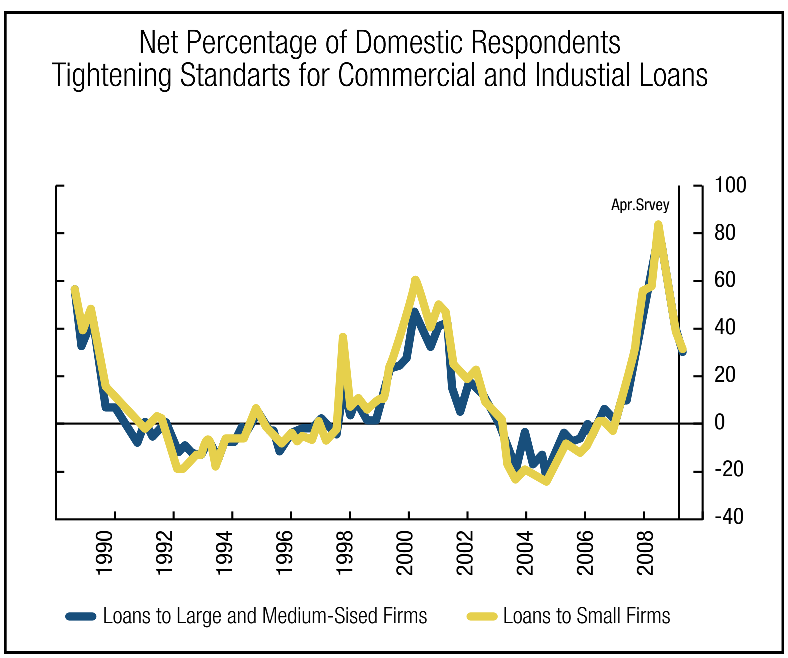


CHART X

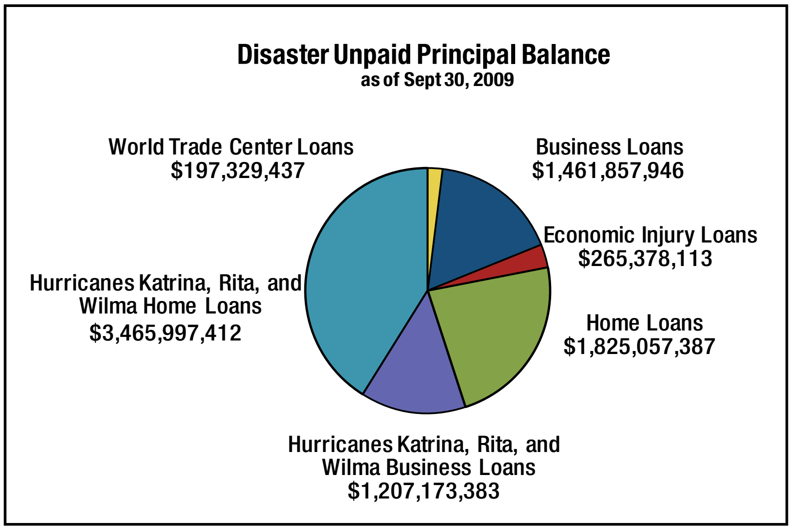


On the supply side of the small business loan equation, **Chart X** shows how banks began to tighten their credit standards for small firms at the beginning of 2007. As the crisis expanded, the percentage of senior loan officers who said their banks were tightening credit standards for their commercial and industrial loans to small firms reached its peak of 75 percent at the same time as the lowest point of the credit crisis, the fourth quarter of 2008.

As more current data become available, it is likely that the SBA will see the effects of the Recovery Act provisions to waive borrower fees and increase SBA loan guaranties on this loan equation. Reduced fees, a bottoming-out of the housing market, and a rebounding in the general economy will strengthen demand for small business loans while the decrease in risk associated with the higher loan guaranty will lead to an expansion of supply from banks. Indeed, the SBA has already seen over 1,260 lenders who had not made any SBA loans since October 2008 make new SBA loans since the passage of the Recovery Act. Of those newly-activated lenders, over 760 had not made any SBA loans since the housing market started to decline in late 2007.

DISASTER PORTFOLIO TRENDS

CHART XI



The SBA's portfolio of direct disaster loans decreased slightly from about \$8.9 billion in 2007 to \$8.6 billion in 2008 to \$8.4 billion at the close of FY 2009. As **Chart XI** shows, the decline is most likely due to continued repayments on the historically large amount of loans given after Hurricanes Katrina, Rita, and Wilma. These loans continue to make up over 50 percent of the unpaid disaster loan portfolio.

Growth in the portfolio came from new loans associated with

A "Mine" Blowing Success with Recovery Act

Dutchman Global, Florence, South Carolina

Following an overseas career, Dan Vander Meer realized an opportunity to start his own small business – Dutchman Global, an export company supplying heavy machinery to earthmoving and mining industries.

After just over four years in business, the six-employee company is a qualified success, selling over 60 makes of equipment across the globe.

But in the current economic climate, capital can be hard to come by for a small business, even one as successful as Dutchman Global. This is where the SBA and the Recovery Act helped. In April 2009, Dan was approved for an SBA export line of credit for \$300,000 from Carolina First Bank. Under the Recovery Act, the SBA backed 90 percent of the loan, and with the temporary elimination of guaranty fees, the company has saved thousands of dollars.

But even before the recession, small business capital could be hard to come by. The SBA helped then too. In 2007 Dutchman Global was approved for two SBA revolving lines of credit for exports from BB&T.

"I found it so easy – it was incredible," Dan says.

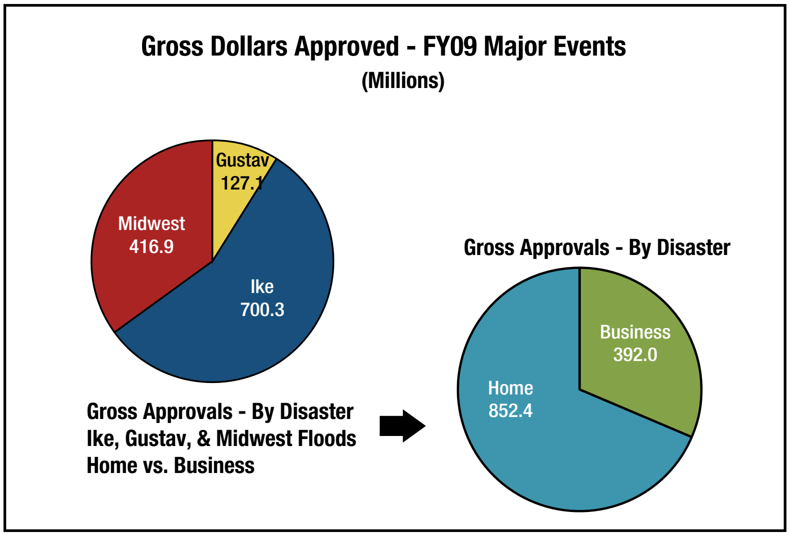
In fact, with a sale hanging in the balance for Dutchman Global, an SBA loan officer came in from vacation to work on the company's loan guaranty application. One week later, Dutchman Global got the approval notification.

"Where else do you get dedication like that?" Dan says. "There are people who care and banks that'll work with you."

Hurricanes Gustav and Ike as well as the Midwest floods. Combined, SBA approved over $1.2 billion in business and home loans for these major events (**Chart XII**). Of this $12 billion for Gustav, Ike, and the Midwest Floods, 31.5 percent went to business loans while 68.5 percent went to home loans.

The SBA also 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 (**Chart XIII**).

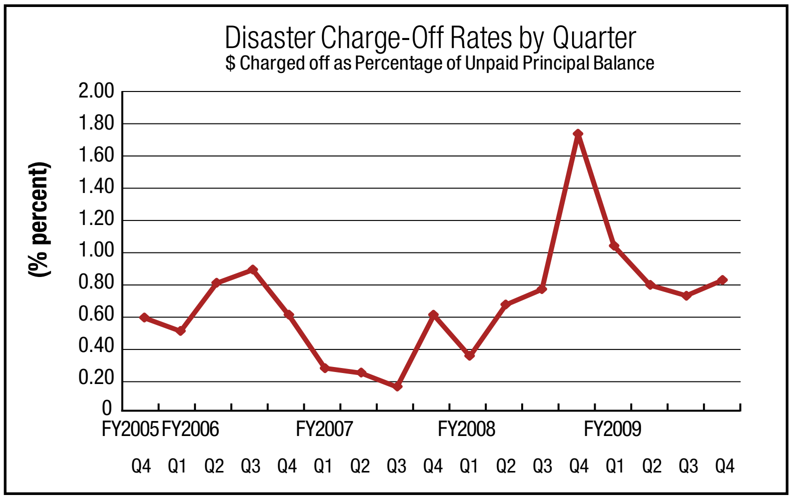
CHART XII



The increase in charge-off rates that was observed over FY 2008 settled back down to around historical levels of about 0.8 percent in FY 2009.

In hindsight, it is likely the spike in the fourth quarter of FY 2008 was due to the credit crunch that affected the entire economy after the credit markets froze in late September of 2008.

CHART XIII



Analysis of SBA's Systems, Controls and Legal Compliance

Internal Control Environment

INTERNAL CONTROL

The SBA 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, is a sign of 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 to reasonably ensure that:

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

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

The SBA continues to strengthen and improve the execution of its mission through the application of sound internal controls. During FY 2009, the Agency created the Office of Internal Controls. The OIC is responsible for implementing the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. The OIC conducted SBA's fourth annual assessment of internal control over financial reporting to comply with this circular. The revised A-123 requires the managers of federal agencies to take the responsibility for assessing internal controls over financial reporting similar to that imposed on publicly traded companies by the Public Company Accounting Reform and Investor Protection Act of 2002 (the "Sarbanes-Oxley Act" or "SOX").

The Senior Assessment Team, chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices, directed this effort. The OIC 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 18 business processes, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business areas. However, the OIC determined that most of the items were relatively minor and not reaching the level of significant deficiency. In one instance the OIC identified non-compliance with applicable laws and regulations. See the Legal Compliance section for detail.

In addition, OIC also performed a review of the Sacramento Loan Processing Center to help the Office of Capital Access determine the effectiveness and efficiency of the internal controls in place for loan approvals made under the American Recovery and Reinvestment Act of 2009.

Given the size of its $90 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 that disburse SBA-guarantied loans according to risk. This analysis allows the SBA to focus resources on those lenders that represent the most risk in terms of exposure and credit quality. Larger lenders are subject to on-site reviews. The SBA also conducts reviews of Certified Development Companies, examinations of Small Business Investment Companies, guarantied loan purchase reviews and reviews of improper payments for business and disaster loans.

LEGAL COMPLIANCE

The SBA has identified one instance of non-compliance with applicable laws and regulations as of September 30, 2009. At the beginning of FY 2009, SBA management established a Debt Collection Improvement Act team to solve the problem where a small number of SBA loans were not being referred to the Treasury for cross-servicing and for the Treasury offset. The team, comprised of staff from the offices of Capital Access, Chief Financial Officer and Chief Information Officer, met biweekly during FY 2009. Due to the diligence of the team, a larger number of additional loans were identified that had not been referred to the Treasury for cross servicing nor for the Treasury offset. The root cause of this error was identified as a system coding issue. The error has since been corrected and additional resources have been allocated to refer these loans to the Treasury within the next six months. A mitigation plan was developed in consultation with Treasury and is in place to ensure that this error does not occur in the future.

AUDIT FOLLOW-UP

The SBA's OIG conducts audits and reviews of the Agency's operations, and the Office of the Chief Financial Officer works closely with SBA management and the OIG to complete actions necessary to respond to OIG audits. The OCFO tracks the completion of these audit recommendations, 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 improved substantially 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.

During FY 2009, the OCFO continued to strengthen 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 communication on emerging issues and training activities.

In FY 2009 the OIG reported that the SBA needs to improve its Improper Payment review process for both its flagship 7(a) loan program and its Disaster loan program. The OIG audited the Agency's FY 2008 Improper Payment Review process for the 7(a) loan program and the FY 2007 Improper Payment Review process for the Disaster loan program. According to the OIG reports, the Office of Capital Access and the Office of Disaster Assistance significantly underestimated the improper payment rates, and the sample design and measurement methodology was not appropriate. Although the program offices did not agree with all of the OIG's findings, they worked closely with the OIG to resolve differences and to improve SBA's process for determining improper payments. As a result the program offices consulted with statisticians and redesigned their sampling methodology and testing criteria. Due to the changes, the improper payment rate for disaster loans increased significantly in FY 2009 compared with FY 2008. However this increased rate does not reflect a greater risk in the portfolio. The majority of the errors identified were the result of missing paperwork. The errors generally do not have an impact on the eligibility of the borrowers to receive the funds or the willingness and/or ability of the borrowers to repay the disaster loans. See further details related to the Improper Payment review process and results in the section titled Improper Payment.

INFORMATION SYSTEMS

The SBA continues to have a significant deficiency in the information technology security controls. The Agency is sensitive to the need to protect SBA data, and plans to work diligently to improve both process and performance in this critical area. The following steps to remediate findings pointed out in the Auditors' Report are being taken:

- Revise the Plan of Action & Milestone management program, in conjunction with program offices, to track, monitor, and aggressively mitigate vulnerabilities in all Agency systems.
- Incorporate new controls into the certification and accreditation process to effectively identify and manage security risks consistent with the new revision of the Guide for the Security Certification and Accreditation of Federal Information Systems issued by the National Institute of Standards and Technology.
- Work closely with the Office of Inspector General in updating the Standard Operating Procedure on Automated Information System Security Program to clarify and strengthen detailed procedures required to ensure security access controls are in place to protect SBA data from unauthorized modification, disclosure, and loss.
- As a part of updating the SOP the Agency-wide security configuration policy will be updated to enhance the change control and patch management process. This is critical to ensure software changes can be audited and tracked to avoid inadvertent or deliberate irregularities.
- Reissue policy for end-user computing and coordinate with program offices to develop new procedures to ensure sensitive data, such as financial data, is recorded and tracked.

Did you know

Small business owners may serve on a Regional Regulatory Fairness Board to advise the SBA National Ombudsman on matters of concern to small businesses relating to the enforcement activities of federal agencies.

Summary of Financial Statement Audit and Management Assurances

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

Summary of Financial Statement Audit

Audit Opinion	Unqualified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting - The alignment adjustment entry was improperly posted.	0	1	N/A	N/A	N/A	1

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Audit Opinion	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting - The alignment adjustment entry was improperly posted.	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Qualified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	1	N/A	N/A	N/A	1
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

FMFIA and FFMIA Assurance Statement for FY 2009

The Small Business Administration continued to strengthen the internal controls over its programs and operations during FY 2009. Creating a culture of responsibility and accountability while eliminating and preventing waste, fraud and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA is on course to achieve its internal control objectives in the coming year.

The internal controls over SBA's program operations continued to show improvement this year, and the system in place is sound and efficient. Agency managers have issued assertions as to the status of their FY 2009 internal controls, and these assertions are supported by internal testing, checklists and other management reviews. Although Agency managers reported some operating deficiencies, these were not of a material nature.

SBA's independent auditors issued an unqualified opinion on the Agency's FY 2009 financial statements for the fifth year in a row. However, our auditor reported a material weakness in SBA's financial reporting process. The error resulted from an overstated material error on SBA's Loan Liability Guaranty calculation, which is performed once a year under tight deadlines. In their review of this issue, SBA auditors concluded that SBA lacked the controls to catch this type of error in its once-a-year financial statement preparation process and, therefore, a material weakness exists. This finding, while material in size, has marginal impact on SBA's operations, and was corrected on the same day. Additionally, the internal controls process has been corrected to avoid the weakness in the future.

SBA's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act. The SBA is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of the one material weakness described in the previous paragraph.

The SBA conducted its assessment of the effectiveness of internal controls over the effectiveness and efficiency of 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 evaluation, and considering the independent auditor's finding on the internal controls over financial reporting, the Agency reports one material weakness in its internal controls over the effectiveness and efficiency of operations as of September 30, 2009. The SBA also identified one instance of noncompliance with applicable laws and regulations regarding debt collection that is described in a separate paragraph below. Other than these two noted exceptions, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of internal controls.

In addition, SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, SBA can provide reasonable assurance that its internal control over financial reporting as of June 30, 2009 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

During FY 2010, the SBA plans to complete remediation activities to address the audit findings associated with the material weakness in financial reporting. We plan to have such audit remediation activities completed prior to reporting the June 30, 2010, quarterly financials. We will strengthen the documentation of our existing quality assurance procedures. We will conduct a review of our financial reporting and quality assurance processes and implement identified solutions for improving accuracy and quality in the financial statements. We will also look carefully at our year end schedule and process to reduce the risk associated with year end processes. This will include further automating the year end Loan Liability Guaranty calculation to make the process more efficient and reliable.

SBA management has identified one instance of non-compliance with applicable laws and regulations as of September 30, 2009. At the beginning of FY 2009, SBA management established a Debt Collection Improvement Act team to solve the problem where a small number of SBA loans were not being referred to Treasury for cross-servicing and for the Treasury offset. However, due to diligence of the team a larger number of additional loans were identified that had not been referred to the Treasury for cross-servicing nor for the Treasury offset. The root of this error was identified as a system coding error. The error has since been corrected and additional resources have been allocated to refer these loans to the Treasury within the next six months. A mitigation plan was developed in consultation with the Treasury and is in place to ensure that this error does not occur in the future.

The SBA's OIG identified several issues in the audits of the Agency's improper payment review of the loan programs. SBA management is working with the OIG to further resolve these issues. SBA management will take necessary actions to ensure the Agency has sufficient internal controls in place to minimize improper payments and that it has an effective improper payment review process.

The Federal Financial Management Improvement Act requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The SBA provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2009.

Karen G. Mills
Administrator
November 16, 2009

Improper Payments Summary

The Improper Payment Information Act of 2002 requires that agencies: (1) review programs and identify those susceptible to significant improper payments; (2) report to Congress on the amount and cause of improper payments; and (3) develop approaches for reducing such payments. Appendix C to Circular A-123 issued by OMB in August 2006 provides additional guidance on agency compliance with IPIA requirements. In addition, OMB Circular A-136 provides guidance on the form and content of IPIA reporting. SBA's improper payment program and reporting is subject to this guidance.

SBA's four major credit programs are currently included under IPIA reporting. They are the 7(a) Loan Guarantee Program, the Section 504 Certified Development Company Loan Program, the Small Business Investment Company Program and the Disaster Assistance Loan Program. SBA's risk assessment of the 7(a), 504, and SBIC guaranty approval programs for improper payment indicate a low level of risk, due to the internal controls applied in these programs, and improper payments are extremely low or non existent. The SBA considers the 7(a) guaranty purchase 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. The Disaster program has a low risk of loss, but an OIG audit found that compliance with the paperwork required in Disaster program lending procedures needs improvement.

The SBA Inspector General issued audit reports on the 7(a) guaranty purchase (July 2009) and Disaster improper payments (March 2009). As a result of findings and recommendations in these reports the SBA has changed the methodology used in both of these programs in the sampling and testing for improper payments. As a result, the improper payment rates and dollars found in FY 2009 have increased.

The 7(a) guaranty purchase operation includes centers in Herndon, Virginia, Fresno, California, and Little Rock, Arkansas that are centrally managed by staff in Washington DC. The FY 2009 7(a) guaranty purchase improper payment rate was determined to be 3.81 percent or $68.8 million. In addition, last year's improper payment rate of 0.53 percent has been restated by the SBA this year to 3.20 percent. An issue on the purchase of defaulted guaranties from secondary market holders is not yet resolved with the Inspector General, and this may further increase the restated FY 2008 improper payment rate. The Disaster program operation includes a processing center in Fort Worth and operation centers in Atlanta and Sacramento, as well as a Buffalo customer service center. The FY 2009 Disaster improper payment rate was determined to be 20.9 percent or $168.5 million compared to 0.74 percent reported last year.

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 lender's actions or inactions have placed the SBA at financial risk or contributed materially to the loan default. The evaluation of the lender's exercise of reasonable commercial lending practices is critical and needs to be consistent with the lending practices 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 percent of SBA 7(a) loans are approved by lenders using delegated authority where they make the underwriting decisions.

The Disaster improper payment rate this year is substantially greater than reported in prior years. The increased rate does not reflect a greater risk in the portfolio, only that the SBA is classifying improper payments differently than in the past. In prior years improper payments represented loan funds that were disbursed to a borrower that, based on SBA Standard Operating Procedures, were not appropriate. The majority of errors identified this year were the result of missing loan documentation. The errors generally do not have an impact on the eligibility of the borrower to receive the funds or the willingness and/or ability of the borrower to repay the disaster loan. The SBA has instituted additional training to ensure that staff is aware of all paperwork requirements and the proper steps to be taken to waive requirements when appropriate. Additionally, a new quality assurance team reporting directly to the Disaster Headquarters office is being assembled to provide an independent review of the disaster processing center. The improper payment review will then be completed more frequently than annually, allowing corrective actions to be implemented in a timely manner.

In accordance with OMB guidance, the SBA includes loan guaranty approvals issued during FY 2009 in its Improper Payment program reporting for its 7(a), 504 and SBIC programs. Although these guaranties haven't yet resulted in federal outlays, they could possibly in the future, and they are therefore included. Most frequently, the reason for an improper payment in this category would be the lack of appropriate eligibility or a non compliance with lending procedures. The result of SBA's testing for 7(a) and 504 guaranties issued in FY 2009 indicated a zero percent improper payment rate for both programs. The SBIC program testing found one potential error that resulted in an improper payment rate of 1 percent or $20.4 million when extrapolated. The financing in question contained a pre-payment penalty that, in the judgment of the reviewer, was excessive. Prepayment penalties are permitted so long as they are not deemed excessive. This potential error could yet be justified by the SBIC licensee.

In summary, an Inspector General audit has altered SBA procedures for sampling and testing improper payments, as well as improper payment results, in the 7(a) guaranty purchase and Disaster loan programs. The SBA continues to work with the Inspector General to resolve issues related to this OIG audit. Finally, the SBA is committed to continuous improvement in its improper payment controls and monitoring.

Did you know

The Office of Government Contracting and Business Development launched an on-line training course for small businesses to learn how to participate in the federal procurement arena – http://www.sba.gov/training/governmentcontracting.

Other Management Information

Summary Performance Information on Key SBA Programs

The following table presents key SBA performance data. The first three programs - 7(a), 504, and Disaster loans - are the three largest SBA guaranty and direct loan programs and make up the bulk of SBA's loan portfolio. The other performance indicators have been included to illustrate the impact of other SBA programs and to highlight the soundness of SBA's financial systems. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2009 Annual Performance Report which will be submitted February 2, 2010.

Strategic Goal 1 - Expand America's ownership society, particularly in underserved markets

Program	Performance Indicator	Type of Indicator	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Goal	FY 2009 Actual	FY 2009 Variance
7(a)	Small Businesses Assisted (#) (1) (2)	Outcome	80,303	84,666	59,019	60,486	39,698	-34% R
7(a)	Jobs Created/Retained (#) (2)	Outcome	705,481	776,729	586,955	925,493	450,101	-51% R
504	Small Businesses Assisted (#) (1) (2)	Outcome	7,569	9,708	8,084	8,185	6,321	-23% R
504	Jobs Created/Retained (#) (2)	Outcome	118,840	126,069	111,996	158,122	74,849	-53% R
Strategic Goal 2 - Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster								
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	66	11	11	18	14	22% G
Strategic Goal 3 - Improve the economic environment for small business								
Advocacy (2)	Regulatory Cost Savings to Small Businesses ($ in billions) (3)	Outcome	7.25	2.60	10.76	5.5	7	27% G
Stratgic 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

G	Actual results meets or exceeds target
Y	Actual results is within 10% of meeting the target
R	Actual results is less than 90% of target

[1] FY 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] A more precise mehtodology was developed in FY 2009 to calculate "Jobs Created/Retained", "Small Businesses Assisted", and "Underserved Markets-Small Businesses Assisted". In addition to the change in methodology, the figures are net of fully cancelled loans. Prior year results have been restated to reflect this change.

[3] The FY 2009 "Actual" will be finalized in February 2009 in Advocacy's annual report to Congress.