

**New Jersey Development Authority for Small Businesses, Minorities' and Women's  
Enterprises**

**2006 ANNUAL REPORT**

**Prepared: April 2007**

The New Jersey Development Authority for Small Businesses, Minorities' and Women's  
Enterprises  
**2006 Annual Report**

The New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (NJDA) helps to advance Governor Jon S. Corzine's Economic Growth Strategy by providing financial and technical assistance to small businesses, including those owned by women and minorities. The NJDA assists new and expanding businesses, which strengthens the State's economy and empowers entrepreneurs to transform ideas into successful businesses through non-traditional lending. NJDA programs are managed by the New Jersey Economic Development Authority (EDA).

This report provides an overview of NJDA activity from January 1, 2006 through December 31, 2006, including financial assistance, entrepreneurial training, and business mentoring activities to support small business development and growth.

### **Financial Assistance**

In 2006, NJDA direct loans were awarded to 7 projects, providing a total of \$696,476 in low-interest financing. These loans will support the creation of an estimated 59 new, full-time jobs, and leverage over \$2.5 million in public/private investment in New Jersey. See attachment for list of assisted businesses.

### **2006 Success Story:**

#### *Hounds on the Hudson*

In 2006, EDA provided Hounds on the Hudson L.L.C. with a \$115,000 NJDA loan to support the growth of this new business in Guttenberg that provides daycare, boarding and training for dogs. This women-owned enterprise was founded by Kim Michelle Pamperin, a graduate of the Entrepreneurial Training Institute (ETI).

The project had a total cost of \$190,000, which consisted primarily of completing renovations and purchasing equipment. The \$115,000 NJDA loan was used in conjunction with a \$35,000 loan from the Union County Economic Development Corporation (UCEDC), \$35,000 from private investors and owner's equity of \$5,000 to complete the project.

As a graduate of ETI, Pamperin was awarded the favorable rate of 1% below the quoted NJDA rate. In addition to financial assistance through NJDA, the business also is receiving technical assistance through EDA's Business Mentoring Program. As a result of NJDA's assistance, Hounds on the Hudson is expanding and will create approximately six new jobs.

## **Entrepreneurial Training Institute (ETI)**

The Entrepreneurial Training Institute (ETI) is an innovative program sponsored by the NJDA and EDA that assists aspiring and new entrepreneurs. ETI is designed to offer practical information while helping students to think strategically and be organized in developing a step-by-step plan for their own businesses. The multiple levels of technical assistance available begin with a free, web-based Self-Assessment Tool; free information workshops with local and regional partners offering services to small businesses; highly structured training to cover such practical topics as preparing a focused business plan, understanding the financial aspects of running a small business and developing marketing strategies; feedback from professionals; introductions to financing opportunities and on-going advocacy and mentoring services.

ETI's course structure includes two phases. In ETI I, "Get Set for Entrepreneurship," students focus on small-business feasibility, examining their business ideas, evaluating skills and risks, and identifying the resources necessary to move forward. This phase involves six classroom hours (two sessions). The second phase, ETI II, "Business Planning," includes four highly structured three-hour sessions that help students develop a formal business plan with feedback and coaching. ETI is offered in the spring and the fall each year in 10 to 12 locations throughout the state.

Since its inception in 1992, more than 1,200 individuals have graduated from ETI, including 20 students in 2006. ETI graduates have received more than \$26 million in financing assistance from banks, the NJDA, and other sources of funds to start and grow their businesses. In addition, they have created over 130 jobs in 2006. Over the 14 years since the program's inception, more than 100 banks, lending institutions, organizations, corporations, educational facilities, and other advocates for small business throughout New Jersey had forged strong partnerships with ETI, and were actively engaged in supporting the efforts of ETI alumni. The alumni receive newsletters, informational emails based upon their business type, free promotion in the Alumni Directory and a contact for questions and referrals.

Merrill Lynch renewed a grant of \$20,000 to support ETI and Business Mentoring, with the focus on assisting the entrepreneurs in understanding the financial health of their businesses. Through this grant from ML, eligible ETI graduates have been provided with Quickbooks, an accounting software package. During 2006, business mentors delivered approximately 30 software packages to graduates and provided guidance for installation and functionality. PNC Bank renewed its commitment to ETI and EDA in the amount of \$15,000 and the name ETI (Entrepreneurial Training Institute) is now a registered trademark.

EDA staff coordinated four Regional Small Business Forums with an attendance of over 200 NJ entrepreneurs and in partnership with the Commerce, Economic Growth and Tourism Commission, Department of Labor and Workforce Development and the Small Business Administration.

## **2006 Focus on Franchising, Hispanic Outreach**

In March 2006, ETI hosted a conference entitled "Franchising as a Business Opportunity," at Rutgers Eco Complex in Bordentown, which was sponsored by the EDA, the New Jersey Commerce, Economic Growth and Tourism Commission, the U.S. Small Business Administration (SBA), the Regional Business Assistance Corporation (RBAC), the International Franchising Association (IFA), the New Jersey Small Business Development Centers (SBDC), the South Jersey Chamber of Commerce and Rutgers University. The conference, which attracted over 40 attendees, presented critical information in a non-sales environment to help attendees understand the issues that prospective franchisees should consider before signing a franchise contract, including: the advantages and disadvantages of franchising; the key legal questions individuals need to ask; the process for buying a franchise; as well as financing opportunities available. A similar event will be offered annually.

EDA and ETI also remained committed in 2006 to advance the state's Hispanic Outreach Initiative. HOI is structured in partnership with the Union County Economic Development Corporation (UCEDC) and has grown to serve the Spanish-speaking entrepreneurs in 11 counties over four years. The components of HOI include marketing and targeted outreach; technical assistance including topical mini-workshops, training and mentoring, financing with partners and under existing EDA/NJDA financing resources, and enhanced tracking to measure success. In 2006, UCEDC provided financing to 14 Hispanic small businesses.

### **Business Mentoring**

Nearly five years ago, the NJDA and the EDA teamed with several of New Jersey's premier business development organizations to offer a Small Business Mentoring Program. The program now provides "post-graduate" services to students who complete ETI. With the help of the Mentoring Program, new business owners gain a partner to assist them in facing and overcoming the obstacles they typically face as they begin their new venture. In addition, the Mentoring Program also benefits the recipients of micro loans obtained through the sponsoring organizations.

In 2006, Jamie Burr, a graduate of the ETI program, benefited greatly from his business mentor who helped prepare a financing request that resulted in a loan totaling \$1.3 million in combined funding from the EDA and PNC Bank to assist in purchasing a facility to house his uniform business in Newark. With the help of a business mentor, Malachi Washington, Jr. received \$30,000 in combined financing from the Cooperative Business Assistance Corporation (CBAC) in Camden and The Bank to open his truck repair and welding service business in Pleasantville. A 2006 Spring ETI graduate, Rose-Vony Duroseau, received \$20,000 in financing from the UCEDC to help open a law practice in Newark that primarily serves low- and middle-income clients. She currently serves as an instructor for the ETI program.

The Small Business Mentoring Program is the first large-scale, statewide, organized effort to help ETI students who have graduated and gone on to start or expand a small business. In addition, EDA and NJDA loan recipients are also eligible for mentoring services. The program is designed to improve their success rate by providing the regular contact with business mentors who provide the guidance to help them survive and grow. Four sponsoring organizations participate in the program and cover the entire State. Each organization provides office space for one mentoring staff person with in-kind administrative support.

The four organizations include: CBAC, the Hudson County Community College in Jersey City, the Regional Business Assistance Corporation in Trenton and the UCEDC in Union. Business mentors serve as small business advocates and help entrepreneurs refine their business plans. Their mentoring efforts are tailored to individual needs, and the mentors themselves help small business owners cope with pressures of day-to-day business operations. Through the Business Mentoring Program, 218 small businesses are assisted annually with a total of approximately 1600 contact hours aiding with credit issues, business plans, financing proposals, bookkeeping, management and personnel issues, marketing and product/service pricing.

NJDA Assisted Projects 2006

L.D.	Name of Applicant	Municipality	County	Project Type	Est Jobs	Const Jobs	NJDA Financing Amount	Total Proj Cost	Closing Date	Project Type
2	Three Scoops Marina, L.L.C.	Atlantic City	Atlantic	RT	8	0	\$80,000	\$132,000	10/16/2006	Commercial
4	Vitale's Italian Eatery II, Inc.	Gloucester City	Camden	RT	8	0	\$62,500	\$328,000	5/25/2006	Commercial
4	The Way Station of Truth and Life L.L.C.	Glassboro Boro.	Gloucester	RT	1	0	\$75,000	\$429,400	6/2/2006	Commercial
33	Hounds on the Hudson L.L.C.	Guttenberg Twp.	Hudson	SV	6	2	\$115,000	\$190,000	3/13/2006	Services
12	La Cascata Salon and Spa Inc.	Marlboro Twp.	Monmouth	SV	20	12	\$100,000	\$709,450	2/3/2006	Services
3	Harding HVAC Supply L.L.C.	Pittsgrove Twp.	Salem	WS	3	7	\$113,976	\$405,905	9/29/2006	Wholesale
20	Waiting Room, Inc.	Rahway City	Union	RT	13	5	\$150,000	\$321,000	5/12/2006	Commercial
<b>Total: 7 NJDA Projects</b>					<b>59</b>	<b>26</b>	<b>\$696,476</b>	<b>\$2,515,755</b>		



**NEW JERSEY DEVELOPMENT AUTHORITY**  
FOR SMALL BUSINESSES, MINORITIES  
AND WOMEN'S ENTERPRISES

May 24, 2007

In accordance with Executive Order No. 37 issued by Governor Jon S. Corzine on September 26, 2006, the 2006 Annual Report of the New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (NJDA) also serves as the comprehensive report of the Authority's operations. The NJDA assists new and expanding businesses, and is managed by the New Jersey Economic Development Authority (EDA). This report highlights the significant action of NJDA for the year.

The report of independent auditors, Ernst & Young LLP, dated February 2, 2007, is attached and completes the Authority's requirements concerning the preparation of a comprehensive report required by Executive Order No. 37.

In addition, I certify that during 2006, the Authority has to the best of my knowledge, followed all of the Authority's standards, procedures and internal controls.

Sincerely,

Caren S. Franzini  
Secretary of the Board



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## Report of Independent Auditors

The Board of Directors of  
New Jersey Development Authority for  
Small Businesses, Minorities' and Women's Enterprises

We have audited the accompanying basic financial statements of the New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises as of December 31, 2006 and 2005 and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



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Report of Independent Auditors on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed  
in Accordance with *Government Auditing Standards*

The Board of Directors of  
New Jersey Development Authority for  
Small Businesses, Minorities' and Women's Enterprises

We have audited the basic financial statements of the New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (the "Authority"), as of and for the year ended December 31, 2006, and have issued our report thereon dated February 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

**NEW JERSEY DEVELOPMENT AUTHORITY for SMALL BUSINESSES,  
MINORITIES' and WOMEN'S ENTERPRISES  
Management's Discussion and Analysis  
For the Years Ended December 31, 2006 and 2005**

This section of the New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended on December 31, 2006 and December 31, 2005. Please read it in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

**2006 FINANCIAL HIGHLIGHTS**

- The Authority's total net assets decreased \$277,315 (or 10.1%) primarily due to a decline in interest income and an increase in Entrepreneurial Training Institute (ETI) expenses.
- Operating revenues decreased by \$116,365 (or 33.6%) primarily due to a decline in ETI contributions made by various commercial banks and an increase in provision expense resulting from a large amount of loans disbursed.
- Operating expenses excluding loss provisions increased \$37,627 (or 7.8%) primarily due to an increase in consulting fees for the ETI.
- Interest income-investments decreased by \$106,576 (or 60.6%) primarily due to the absence of interest income for project funding receipts.
- Operating loss increased by \$210,538 (or 154.7%) primarily due to an increase in provision and ETI consulting expense, along with a decrease in ETI contributions.

**2005 FINANCIAL HIGHLIGHTS**

- The Authority's total net assets remained relatively level with last year.
- Operating revenues increased by \$32,517 (or 10.4%) primarily due to a reduction in provision expense resulting from a large amount of loan payments received.
- Operating expenses excluding loss provisions remained relatively level with last year.
- Interest income-investments increased by \$105,489 (or 150%) primarily due to a higher average interest rate and a higher average cash balance in the Cash Management Fund (CMF) bank account.
- Operating loss decreased by \$310,298 (or 69.5%) primarily due to a large write-off of a capital investment last year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts: *management's discussion and analysis* and the *basic financial statements*. The Authority is a self-supporting entity and follows a proprietary fund basis of accounting; accordingly, the financial statements are presented on the basis of an enterprise fund. Proprietary fund statements offer short- and long-term financial information about the Authority's activities and present its operations in a manner similar to a private business engaged in such activities as commercial lending, mentoring services, and entrepreneurial training. While

detailed sub-fund information is not presented, separate accounts are maintained for each program or project to control and manage money for particular purposes or to demonstrate that the Authority is properly using specific grants and contributions.

### FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets. The following table summarizes the Net Assets as of December 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current Year % (decrease)</u>	<u>Prior Year % increase/(decrease)</u>
Current and Non-Current Assets	<u>\$2,936,527</u>	<u>\$3,248,642</u>	<u>\$3,236,602</u>	(9.6%)	0.4%
Total Assets	2,936,527	3,248,642	3,236,602	(9.6%)	0.4%
Current Liabilities	48,970	68,270	92,612	(28.3%)	(26.3%)
Non-current Liabilities	<u>399,083</u>	<u>414,583</u>	<u>418,000</u>	(3.8%)	(0.9%)
Total Liabilities	448,053	482,853	510,612	(7.2%)	(5.4%)
Net Assets:					
Unrestricted	<u>2,488,474</u>	<u>2,765,789</u>	<u>2,725,990</u>	(10.1%)	1.5%
Total Net Assets	<u>\$2,488,474</u>	<u>\$2,765,789</u>	<u>\$2,725,990</u>	(10.1%)	1.5%

The following table summarizes the operating and nonoperating activities as of December 31, 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current Year % increase/ (decrease)</u>	<u>Prior Year % increase/ (decrease)</u>
Operating Revenues:					
Financing Fees	\$29,745	\$36,625	\$37,166	(18.8%)	(1.5%)
Interest Income Notes	81,753	93,131	103,091	(12.3%)	(9.7%)
Agency Fees Entrepreneurial Training Fees and Contributions	50,000	50,000	50,000	0%	0%
	64,708	121,632	119,780	(46.8%)	1.6%
Loss Recoveries		40,096		(100.0%)	100.0%

Other	3,748	4,835	3,765	(22.5%)	28.5%
Total					
Operating Revenues	229,954	346,319	313,802	(33.6%)	10.4%
Operating Expenses:					
Management Fee to NJEDA	367,140	367,140	367,140	0%	0%
Program Costs	152,970	115,343	125,417	32.7%	(8.1%)
Loss Provisions	56,546		267,707	100.0%	(100.0%)
Total Operating Expenses	576,656	482,483	760,264	19.6%	(36.6%)
Operating Loss	(346,702)	(136,164)	(446,462)	154.7%	(69.5%)
Nonoperating revenues:					
Interest Income-Investments	69,387	175,963	70,474	(60.6%)	150.0%
(Decrease)/ Increase in Net Assets	(277,315)	39,799	(375,988)	(796.8%)	110.6%
Beginning Net Assets	2,765,789	2,725,990	3,101,978	1.5%	(12.1%)
Ending Net Assets	\$2,488,474	\$2,765,789	\$2,725,990	(10.1%)	1.5%

### 2006 Activity:

Financing fees and program volume (applications, commitments, closing, and servicing fees) of \$29,745 are 18.8% lower than last year's of \$36,625, due to having more commitments extended and more loan closings at this time last year.

Agency fees: The Authority receives a \$50,000 annual fee for administering a revolving loan program for the State of New Jersey, Department of Human Services.

ETI: As of the Fall 2005 session, this program has been changed from a one night a week eight-week classroom experience, to two separate training opportunities: ETI-I and ETI-II. This program is still offered at a discount to help aspiring and new entrepreneurs learn the basics of operating a business, yet it has been split into two classes, one being a prerequisite class for the other. The ETI recognized \$40,100 in donations from various commercial banks during the year, compared to last year's donations of \$85,000. In addition, ETI incurred an additional \$31,702 in consulting expenses this year, due to a new contract. These factors contributed towards the increased program deficit of (\$86,986), compared to last years income of \$11,240. Contributions are solicited by staff and will vary from year to year. Entrepreneurs assisted or trained, have increased 201% this year due to the change in class structure in Fall 2005.

Interest Income from Notes of \$81,753 is 12.3% lower than last year's \$93,131 due to a higher annualized interest rate on notes last year (5.88%), than this year (4.14%). Interest income is volatile and affected by numerous factors, including the delinquency rate of the loan portfolio. Also, results are neither consistent nor level from period to period.

Interest Income from Investments: of \$69,387 is 60.6% lower than last year's \$175,963 mostly due to the absence of project funding interest income this year, which totaled \$120,965 in the prior year. This was partially offset by an increase in the CMF interest rate (4.86% vs. 3.07%) in 2006.

Other Revenues represent charges assessed to borrowers who have remitted their loan payments after the grace period; these late fees are not level from period to period.

Management Fee to New Jersey Economic Development Authority ("NJEDA"): The NJEDA directly administers the programmatic affairs and administrative operations of the Authority for a contracted annual fee of \$367,140.

Program Costs of \$152,970 are 32.7% higher than last year's due to an increase in consulting expenses associated with the administration of the ETI.

Loss Provisions have been affected by a mix of variables; \$39,673 increase due to risk rating changes to the existing portfolio; \$83,398 increase due to new financings; (\$62,524) decrease due to repayments of principal and (\$4,001) recovery of prior losses. Allowances for doubtful notes and guarantee payments are determined in accordance with guidelines established by the Office of the Comptroller of the Currency. The Authority accounts for its potential loss exposure through the use of risk ratings. Every loan and guarantee is assigned a specific risk rating. The assigned risk ratings are continuously updated to account for change in financial condition of the borrower or guarantor, delinquent payment history, loan covenant violations, and changing economic conditions.

Authority Funding: At December 31, 2006 the Authority is entitled to receive \$15,506,392 of obligations held by the Casino Reinvestment Development Authority ("CRDA").

Legislative Financing Mandate: The funding provided to the Authority is subject to legislatively defined mandates. During 2006, there were no 1<sup>st</sup> generation financings.

At December 31, 2006, including an outstanding loan commitment of \$1,500,000, the Authority had \$3,720 of funds subject to 1<sup>st</sup> generation requirements; accumulative results follow:

Mandate Type	Accumulative Mandate Amount 1984-2008	Accumulative Actual Closed 1984-2006	Actual/Mandate
Women	\$13,453,301	\$2,906,878	21.6 %
Minority	\$13,453,301	\$6,577,706	48.9 %
Atlantic City	\$13,739,682	\$7,218,957	52.6 %
South Jersey	\$7,690,872	\$1,394,628	18.2 %
North Jersey	\$5,476,048	\$870,999	15.9 %

Through December 31, 2006, 2<sup>nd</sup> generation fund mandates, which encompass all available funding other than 1<sup>st</sup> Generation Funds, were calculated at \$1,925,695; results for the year follow:

Mandate Type	Mandate Amount	Actual Closed	Actual/Mandate
Small Business-50%	\$962,847	\$406,476	42.3 %
Women-25%	\$481,424	\$290,000	60.3 %
Minority-25%	\$481,424	\$0	n/a %

**2005 Activity:**

Financing fees and program volume (applications, commitments, closing, and servicing fees) of \$36,625, are relatively level with last year's of \$37,166, yet when comparing just servicing fees (\$14,992 vs. \$200), there is a large increase from last year. This is primarily due to earning \$12,000 from Philly Sound and \$2,917 from Planet Rose. The \$2,917 represents the current portion of a \$35,000 fee received this year. The Philly Sound and Planet Rose financings represent direct investments made by a casino. In addition, even though we received and extended more commitments and closed more loans in 2005, the fees for these are lower than last year. This is due to earning \$24,000 from the Philly Sound \$2,400,000 financing last year and earning only \$7,000 from the \$700,000 financing from Planet Rose this year.

Agency fees: The Authority receives a \$50,000 annual fee for administering a revolving loan program for the State of New Jersey, Department of Human Services.

ETI: As of the Fall 2005 session, this program has been changed from a one night a week eight-week classroom experience, to two separate training opportunities: ETI-I and ETI-II. This program is still offered at a discount to help aspiring and new entrepreneurs learn the basics of operating a business, yet it has been split into two classes, one being a prerequisite class for the other. The ETI recognized \$85,000 in donations during the year from various commercial banks, thereby increasing the programs' income to \$11,240 compared to last years deficit of (\$4,008). Contributions are solicited by staff and will vary from year to year. Enrollment decreased by 42.9% due to the revision of enrollment eligibility in Fall 2004 and the change in class structure in Fall 2005.

Interest Income from Notes of \$93,131 is 9.7% lower than last year's \$103,091 due to a decline in the loan portfolio balance from \$1,870,245 to \$1,582,712. Interest income is volatile and affected by numerous factors, including the delinquency rate of the loan portfolio. Also, results are neither consistent nor level from period to period.

Interest Income from Investments of \$175,963 as compared to \$70,474 last year reflects the increase in the balance of project funding from \$13,825,047 at December 31, 2004 to \$14,412,011 at December 31, 2005. The increase is also due to a higher CMF interest rate (3.07% vs. 1.27%) in 2005.

Other Revenues represent charges assessed to borrowers who have remitted their loan payments after the grace period; these late fees are not level from period to period.

Loss Recoveries of \$40,096 consists of the following mix of variables: \$39,942 increase in provision due to risk rating changes to the existing portfolio; \$72,077 increase to provision due to new financings; (\$148,239) decrease in provision due to repayments of principle and (\$3,876) recovery of prior losses.

Management Fee to New Jersey Economic Development Authority ("NJEDA"): The NJEDA directly administers the programmatic affairs and administrative operations of the Authority for a contracted annual fee of \$367,140.

Program Costs of \$115,343 are 8.1% lower than last year's due to a decline in curriculum expenses associated with the administration of the ETI.

Loss Provisions- are 100% lower than last years due to writing off a large capital investment in a venture capital fund in 2004.

Authority Funding: At December 31, 2005 the Authority is entitled to receive \$14,412,011 of obligations held by the Casino Reinvestment Development Authority ("CRDA").

Legislative Financing Mandate: The funding provided to the Authority is subject to legislatively defined mandates. During 2005, there was a 1<sup>st</sup> generation financing in the amount of \$700,000, which CRDA approved as a direct investment. The Authority acts solely as a conduit for this financing and does not have any financial exposure.

At December 31, 2005, including an outstanding loan commitment of \$50,000, the Authority had \$3,720 of funds subject to 1<sup>st</sup> generation requirements; accumulative results follow:

Mandate Type	Accumulative Mandate Amount 1984-2008	Accumulative Actual Closed 1984-2005	Actual/Mandate
Women	\$13,453,301	\$2,906,878	21.6 %
Minority	\$13,453,301	\$6,577,706	48.9 %
Atlantic City	\$13,739,682	\$7,218,957	52.6 %
South Jersey	\$7,690,872	\$1,394,628	18.2 %
North Jersey	\$5,476,048	\$870,999	15.9 %

Through December 31, 2005, 2<sup>nd</sup> generation fund mandates, which encompass all available funding other than 1<sup>st</sup> Generation Funds, were calculated at \$2,300,798; results for the year follow:

Mandate Type	Mandate Amount	Actual Closed	Actual/Mandate
Small Business-50%	\$1,150,398	\$334,745	29.1 %
Women-25%	\$575,200	\$223,446	38.9 %
Minority-25%	\$575,200	\$127,690	22.2 %

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide New Jersey citizens and taxpayers, customers, clients, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the appropriations and grants that it receives. If you have questions about this report or need additional financial information, contact the Office of Public Affairs, NJDA, P.O. Box 990, Trenton, NJ, 08625 or call (609) 292-1800.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL BUSINESSES,  
MINORITIES' AND WOMEN'S ENTERPRISES  
BALANCE SHEETS  
December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$1,213,859	\$1,815,249
<b>Receivables:</b>		
Notes	188,828	199,066
Accrued interest on notes	4,617	4,738
Miscellaneous Receivables	18	39,485
	<u>193,463</u>	<u>243,289</u>
	<u>1,407,322</u>	<u>2,058,538</u>
<b>Noncurrent Assets:</b>		
<b>Receivables:</b>		
Notes	1,783,623	1,383,646
Allowance for doubtful notes and guarantee losses	<u>(256,676)</u>	<u>(196,128)</u>
	1,526,947	1,187,518
Entrepreneurial Training Institute inventory	<u>2,258</u>	<u>2,586</u>
	<u>1,529,205</u>	<u>1,190,104</u>
<b>Total Assets</b>	<u><u>\$2,936,527</u></u>	<u><u>\$3,248,642</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Management fee payable to the New Jersey Economic Development Authority (NJEDA)	\$30,595	\$30,595
Deposits and other payables	2,875	1,175
Deferred Revenues	<u>15,500</u>	<u>36,500</u>
	48,970	68,270
<b>Noncurrent Liabilities:</b>		
Payable to the State of New Jersey	290,000	290,000
Deferred Revenues	<u>109,083</u>	<u>124,583</u>
	<u>399,083</u>	<u>414,583</u>
<b>Total Liabilities</b>	448,053	482,853
Net Assets-unrestricted	<u>2,488,474</u>	<u>2,765,789</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$2,936,527</u></u>	<u><u>\$3,248,642</u></u>

See accompanying notes.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL BUSINESSES,  
MINORITIES' AND WOMEN'S ENTERPRISES  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Years Ended December 31, 2006 and 2005**

	2006	2005
<b>Operating Revenues:</b>		
Financing fees	\$29,745	\$36,625
Interest income-notes	81,753	93,131
Agency fees	50,000	50,000
Entrepreneurial training fees and contributions	64,708	121,632
Other	3,748	4,835
Loss Recoveries		40,096
<b>Total Operating Revenues</b>	<b>229,954</b>	<b>346,319</b>
<b>Operating Expenses:</b>		
Management fee to NJEDA	367,140	367,140
Program costs	152,970	115,343
Loss provisions - net of recoveries	56,546	
<b>Total Operating Expenses</b>	<b>576,656</b>	<b>482,483</b>
<b>Operating loss</b>	<b>(346,702)</b>	<b>(136,164)</b>
<b>Nonoperating revenues:</b>		
Interest income-investments	69,387	175,963
<b>(Decrease) Increase in net assets</b>	<b>(277,315)</b>	<b>39,799</b>
<b>Net assets-beginning of year</b>	<b>2,765,789</b>	<b>2,725,990</b>
<b>Net assets-end of year</b>	<b>\$2,488,474</b>	<b>\$2,765,789</b>

See accompanying notes.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL BUSINESSES,  
MINORITIES' AND WOMEN'S ENTERPRISES  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2006 and 2005**

	2006	2005
<b>Cash flows from operating activities:</b>		
Financing fees	\$29,745	\$37,638
Interest income-notes	81,874	92,269
Agency fees	50,000	50,000
Entrepreneurial training fees, contributions, and other	16,456	77,391
Servicing Fees	15,500	20,158
Loss Recovery	4,002	3,876
Management fees paid to the NJEDA	(367,140)	(367,140)
Program costs	(152,642)	(115,819)
Collection of notes receivable	359,740	831,031
Note disbursements	(749,479)	(653,556)
Deposits and other	1,700	1,175
	(710,244)	(22,977)
 <b>Net cash used in operating activities</b>		
 <b>Cash flows from investing activities:</b>		
Interest income-investments	108,854	136,495
	108,854	136,495
 <b>Net cash provided by investing activities</b>		
<b>Net (decrease) increase in cash</b>	(601,390)	113,518
<b>Cash and cash equivalents-beginning of year</b>	1,815,249	1,701,731
<b>Cash and cash equivalents-end of year</b>	\$1,213,859	\$1,815,249
 <b>Reconciliation of Operating Loss to Net Cash used in Operating Activities:</b>		
Operating loss	(\$346,702)	(\$136,164)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Loss provisions	60,548	(36,220)
Change in assets and liabilities:		
Notes receivable	(389,739)	177,475
Interest receivable - notes	121	(862)
Other receivables		1,012
Prepays		1,368
Inventory	328	(1,827)
Deferred revenues	(36,500)	(28,917)
Other payables	1,700	1,158
	(\$710,244)	(\$22,977)
<b>Net cash used in operating activities</b>	(\$710,244)	(\$22,977)

See accompanying notes.

**New Jersey Development Authority for Small Businesses,  
Minorities' and Women's Enterprises  
Notes to Financial Statements  
For the Years Ended December 31, 2006 and 2005**

**Note 1: Nature of the Authority**

The New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises ("Authority") is a public body corporate and politic, constituting an instrumentality and component unit of the State of New Jersey ("State"). The Authority was established by Chapter 386, P.L. 1985 ("Act") as amended and supplemented, effective January 3, 1989, primarily to provide financial assistance and training to small businesses and businesses owned by minorities and women for the purpose of encouraging entrepreneurship within these defined groups. The Act prohibits the Authority from obligating the credit of the State in any manner.

**Note 2: Summary of Significant Accounting Policies**

**(a) Basis of Accounting and Presentation**

The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Authority follows only the pronouncements of all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements, in which case, GASB standards will be used as the Authority's governing pronouncement. The Authority has elected to follow the pronouncements of the FASB issued after November 30, 1989, that do not conflict with GASB statements.

**(b) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and disclosure of contingencies. Actual results could differ from those estimates.

**(c) Revenue Recognition**

The Authority charges various financing fees, which may include an application fee, commitment fee, and closing fee. The published fee schedule is commensurate with the scope of the services performed. The Authority also charges an agency fee for the administration of a financial program of the State. In addition, the Authority sponsors an Entrepreneurial Training Institute for which it charges a registration fee to the participants. The aforementioned revenue sources and interest income are recognized as earned.

**(d) Allowance for Doubtful Notes and Guarantee Losses**

Allowance for doubtful notes and guarantee losses are determined in accordance with guidelines established by the Office of the Comptroller of the Currency, which include classifications, based on routine reviews of various factors that impact collectibility.

**(e) Taxes**

The Authority is exempt from all Federal and State income taxes and real estate taxes.

**(f) Cash Equivalents**

The Authority participates in the State of New Jersey Cash Management Fund ("NJCMF"). The NJCMF is managed by the State's Division of Investment under the Department of the Treasury. All investments must fall within the guidelines set forth by the Regulations of the State Investment Council. The Division of Investment is permitted to invest in a variety of securities to include obligations of the U.S. Government and certain of its agencies, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances and loan participation notes. Investment guidelines provide that all investments in the NJCMF should mature or are to be redeemed within one year, except that up to 25% of the NJCMF may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments in the NJCMF shall not exceed one year. Cash equivalents are stated at cost, which approximates fair value. The Authority considers as cash equivalents all highly liquid debt instruments with a maturity of three months or less when acquired.

**(g) Operating and Non-Operating Revenues and Expenses**

The Authority defines operating revenues and expenses as relating to activities resulting from providing financing to small, minority and women owned businesses to encourage entrepreneurship. Non-operating revenues include income earned on the investment of funds.

**Note 3: Cash and Cash Equivalents and Investments**

**(a) Cash and Cash Equivalents**

Operating cash, in the form of Negotiable Order of Withdrawal accounts, is held in the Authority's name by a commercial banking institution. At December 31, 2006, the carrying amount of the Authority deposits was \$55,441 and the bank balance was \$29,985. Of the bank balance, all was insured with Federal Deposit Insurance.

**(b) Investments**

Pursuant to the Enabling Act, the funds of the Authority may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Authority may approve.

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. Then NJCMF invests pooled monies from various State and non-State agencies in primarily short-term

investments. These investments include: U.S. Treasuries, short term Commercial Paper, U.S. Agency Bonds, Corporate Bonds, and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term interest rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2006 and 2005, the Authority balance is \$1,158,418 and \$1,677,858 respectively.

*Custodial Credit Risk.* Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure.

*Credit Risk.* The Authority does not have an investment policy regarding the management of Credit Risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The NJCMF is a non-rated investment.

*Interest Rate Risk.* The Authority does not have a policy to limit interest rate risk. The average maturity of the Authority's sole investment, the NJCMF, is less than 1 year.

**Note 4: Notes Receivable**

Notes receivable consist of term loans and are generally collateralized by the assets of the borrowers and/or personal assets and personal guarantees. The notes bear interest ranging from 3% to 7.25% and mature at various times through February 2020.

The Authority also enters into participation agreements with commercial lending institutions whereby the commercial lending institution purchases an undivided, full risk, non-recourse, participating interest in loans included within the Authority's portfolio. These agreements require the Authority to remit, to the commercial lending institution, its pro-rata share of the loan payments.

Aggregate Notes Receivable activity for the years ended December 31, 2006 and 2005 was as follows:

December 31, 2004	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures- Net	December 31, 2005	Amounts Due Within One Year
\$1,870,245	\$653,556	(\$830,733)	(\$110,356)	\$1,582,712	\$199,066
December 31, 2005	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures- Net	December 31, 2006	Amounts Due Within One Year
\$1,582,712	\$749,479	(\$359,748)	\$8	\$1,972,451	\$188,828

**Note 5: Payable to the State of New Jersey**

Pursuant to Chapter 386, P.L. 1985, as amended and supplemented, the State appropriated to the Authority \$290,000 to fund the commencement of the Authority's operations. The appropriation is considered to be a zero interest loan and, as determined by the State Treasurer, is to be repaid in five annual installments commencing in the year following the second consecutive year in which the Authority received sufficient revenues from its own activities to pay its operating expenses. At December 31, 2006 and December 31, 2005, repayments have not commenced.

**Note 6: Agreement with the New Jersey Economic Development Authority ("NJEDA")**

The Authority has a contract with the NJEDA to provide administrative and program services for the Authority for an annual fee of \$367,140.

**Note 7: Authority Funding**

Pursuant to N.J.S.A. 5:12-181 of the Casino Control Act, the Casino Reinvestment Development Authority ("CRDA") is required to set aside from casino proceeds \$1,200,000 annually, beginning in 1984 and continuing through 2008, for the purpose of investing in program commitments of the Authority. In lieu of purchasing these commitments, the CRDA may permit a casino to fulfill its obligation, at a discounted rate, by investing directly in, or making a donation of money or realty to, an eligible project, facility or program.

Total donations received since inception amount to \$9,488,304 at December 31, 2006. Funds held by the CRDA and set aside until received by the Authority amount to \$15,506,392 and \$14,412,011 at December 31, 2006 and 2005, respectively.

**Note 8: Commitments and Contingencies**

**(a) Loan Program and Capital Investments**

At December 31, 2006, the Authority has \$1,500,000 of 1st generation direct investment commitments not yet closed or disbursed and \$758,189 of 2<sup>nd</sup> generation loan commitments not yet closed or disbursed.

**(b) Loan Guarantee Program**

At December 31, 2006, the Authority has no existing guarantees.