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

2005 ANNUAL REPORT

Prepared: March 2005

The New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises
2005 Annual Report

The New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (NJDA) provides 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, 2005 through December 31, 2005, including financial assistance, entrepreneurial training, and business mentoring activities to support small business development and growth.

Financial Assistance

In 2005, NJDA direct loans were awarded to 11 projects, providing a total of $1.4 million in low-interest financing. These loans will support the creation of an estimated 58 new, full-time jobs, and leverage over $3.3 million in public/private investment in New Jersey. See attachment for list of assisted businesses.

2005 Success Story:

Family Food Distributors
In 2005, EDA provided Family Food Distributors, LLC, with a $65,000 NJDA to support growth of their food wholesale business in Kearny. This Minority Business Enterprise is a family business, owned jointly by husband and wife, John Rivas and Andrea Castaneda. The manager is Andrea's mother, Patricia Castaneda-Mendez who is a graduate of the Entrepreneurial Training Institute (ETI).

Family Food Distributors, Inc. is a wholesaler of Hispanic food, particularly products from Ecuador and Costa Rica, doing business in New Jersey, New York, Pennsylvania and Connecticut. The applicant received a total of $100,000 in working capital ($65,000 from NJDA and $35,000 from the Greater Newark Business Development Consortium, an SBA microlender) to purchase products directly from manufacturers, allowing improved income and ability to generate much needed capital. As graduates of ETI, they were awarded the favorable rate of 1% below the quoted NJDA rate. In addition to financial assistance through NJDA, the company is also receiving technical assistance through EDA's Business Mentoring Program. As a result of NJDA's assistance Family Food Distributors is expanding and created of four 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-Assesment Tool, introduced in 2005; 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.

In 2005, ETI's course structure was revamped to include 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 76 students in 2005. ETI graduates have received more than $18 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 200 jobs since 2001. By the close of 2005, 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 provided 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, the ETI graduates will be provided with Quickbooks, an accounting software package. 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.

2005 Focus on Franchising, Social Entrepreneurism, Hispanic Outreach

In April 2005, in conjunction with ETI, a conference entitled "Franchising as a Business Opportunity," was held in Wayne, and sponsored by the EDA, the New Jersey Commerce, Economic Growth and Tourism Commission, the U.S. Small Business Administration (SBA), Prosperity New Jersey, the International Franchising Association (IFA), the Passaic County Economic Development Corporation and the UCEDC. 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 2005 to advance the state's Hispanic Outreach Initiative. HOI is structured in partnership with 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. Projected volume of closed loans is 16 for 2006 between EDA and UCEDC, based upon data from UCEDC over the last three years.

In 2005, ETI offered specialized Social Enterprise courses in Spring and Fall to assist non-profit organizations reduce their reliance on grant funding and become more self-sufficient. The courses were offered in Newark, Trenton and Wayne. Since this specialized social entrepreneurship instruction was incorporated into the curriculum in 2000, approximately 50 individuals have graduated from the non-profit program. This outreach was expanded in late 2005 through a contract with New Capital Consulting and a partnership with the United Ways of New Jersey and The Center for Non-Profits.

State officials, lenders, economic development organizations and leaders of New Jersey's business community gathered in Trenton in June 2005 to salute program graduates who have positioned themselves to achieve business success and contribute to New Jersey's economy.

Two ETI graduates were chosen by PNC Bank to receive scholarship awards to help capitalize their businesses and cover their ETI tuition. They were Addie Fairfax-Knight, who attended the Wayne class and plans to open a Laundromat called Addie's Gentle Cycle in the Paterson-Clifton-Orange area, and Corina Perdomo, who attended the Plainfield Spanish-speaking class and will be opening LaChapinita Bakery in Plainfield with her husband, Fredy Cabrera.

ETI graduate Christina Edwards, owner of Unity Day Care Center, Lakewood, also presented two scholarships bearing her name to be used as start-up capital by two students who attended the ETI class in Lakewood. The scholarship winners were Anne Clark, who is expanding Clark Fitness Training in Freehold, and Donna Hernon, who is opening the Sports Zone & Fitness Center in Eatontown.

Business Mentoring

Nearly four 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.

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: the Cooperative Business Assistance Corporation in Camden, 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, 200 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.

Financial Statements

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

December 31, 2005

Financial Statements

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

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Report of Independent Auditors

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

We have audited the accompanying balance sheets 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 December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. 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, 2005 and 2004 and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

February 3, 2006

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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*

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

We have audited the 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, 2005, and have issued our report thereon dated February 3, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

February 3, 2006

NEW JERSEY DEVELOPMENT AUTHORITY for SMALL BUSINESSES, MINORITIES' and WOMEN'S ENTERPRISES
Managements Discussion and Analysis
For the Years Ended December 31, 2005 and 2004

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, 2005. Please read it in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

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 deficit 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, 2005, 2004 and 2003:

	2005	2004	2003	Current Year % increase/(decrease)
Current Assets	$2,058,538	$1,965,490	$1,556,943	4.8%
Non-current Assets	1,190,104	1,271,112	1,865,830	(6.4%)
Total Assets	3,248,642	3,236,602	3,422,773	0.4%
Current Liabilities	68,270	92,612	30,795	(26.3%)
Non-current Liabilities	414,583	418,000	290,000	(0.9%)
Total Liabilities	482,853	510,612	320,795	(5.5%)
Net Assets:				
Unrestricted	2,765,789	2,725,990	3,101,978	1.5%
Total Net Assets	$2,765,789	$2,725,990	$3,101,978	1.5%

The following table summarizes the operating and nonoperating activities as of December 31, 2005, 2004 and 2003:

	2005	2004	2003	Current Year % increase/(decrease)
Operating Revenues:				
Financing Fees	$ 36,625	$ 37,166	$ 15,658	(1.5%)
Interest Income-Notes	93,131	103,091	110,262	(9.7%)
Agency Fees	50,000	50,000	50,000	0%
Entrepreneurial Training Fees and Contributions	121,632	119,780	80,100	1.6%
Loss Recoveries	40,096			100.0%
Other	4,835	3,765	1,487	28.5%
Total Operating Revenues	346,319	313,802	257,507	10.4%
Operating Expenses:				
Management Fee to NJEDA	367,140	367,140	367,140	0%
Program Costs	115,343	125,417	130,794	(8.1%)
Loss Provisions		267,707	1,175,793	(100.0%)
Total Operating Expenses	482,483	760,264	1,673,727	(36.6%)
Operating Loss	(136,164)	(446,462)	(1,416,220)	(69.5%)
Nonoperating revenues:				
Interest Income-Investments	175,963	70,474	80,148	150.0%
Increase (Decrease) in Net Assets	39,799	(375,988)	(1,336,072)	110.6%
Beginning Net Assets	2,725,990	3,101,978	4,438,050	(12.1%)
Ending Net Assets	$2,765,789	$2,725,990	$ 3,101,978	1.5%

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 principal 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 1st 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 1st 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, 2nd generation fund mandates, which encompass all available funding other than 1st 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 %

2004 Activity:

Financing fees and program volume (applications, commitments and closing fees) of $37,166, are 137.4% over $15,658 reported in 2003 due to commitment and closing fees earned from an extraordinarily large, $2.4 million financing.

ETI: This eight-week program is offered at a discount to help aspiring and new entrepreneurs learn the basics of operating a business. The ETI recognized $55,725 of $125,725 in donations during the year from various commercial banks, thereby reducing the program's deficit to ($4,008) as compared to ($48,419) last year. Contributions are solicited by staff and will vary from year to year. Enrollment decreased by 30% to 100 students for Fall 2004 due to the revision of enrollment eligibility.

Interest Income from Notes of $103,091 is 6.5% lower than 2003, due to a decline in the weighted average interest rate of the portfolio from 5.09% to 4.87%. 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 $70,474 as compared to $80,148 in 2003 reflects the decrease in the balance of project funding from $14,518,298 at December 31, 2003 to $13,825,047 at December 31, 2004. The net decrease results from a $1,893,241 direct investment by a casino for the extraordinarily large, $2.4 million "conduit" financing referenced above.

Program Costs of $125,417 are 4.2% lower than 2003, due to a decline in curriculum expenses associated with the administration of the ETI.

Loss Provisions-net of $286,607 primarily results from the write-off of the capital investment noted below. Provision has also been affected by a mix of other variables: $36,549 increase due to risk rating changes to the existing portfolio; $44,308 increase due to new financings; ($82,374) decrease due to repayments of principle and ($18,900) 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 changes in financial condition of the borrower or guarantor, delinquent payment history, loan covenant violations, and changing economic conditions.

Capital Investment: An investment in a venture capital fund has been written off in the amount of $288,123. The venture fund has incurred operating expenses in excess of earnings and to date no contributions or dividends have been remitted to the Authority. As a result, write-offs and write-downs to the portfolio have occurred. In addition, the Authority has recently obtained a copy of the Receivership Order from the U.S. Small Business Administration.

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 Marketing and Policy, 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 2005	December 31 2004
Assets		
Current Assets:		
Cash and cash equivalents	$1,815,249	$1,701,731
Receivables:		
Notes	199,066	257,485
Accrued interest on notes	4,738	3,876
Miscellaneous Receivables	39,485	1,030
	243,289	262,391
Prepaids		1,368
	2,058,538	1,965,490
Noncurrent Assets:		
Receivables:		
Notes	1,383,646	1,612,760
Allowance for doubtful notes and guarantee losses	(196,128)	(342,407)
	1,187,518	1,270,353
Entrepreneurial Training Institute inventory	2,586	759
	1,190,104	1,271,112
Total Assets	$3,248,642	$3,236,602
Liabilities and Net Assets		
Current Liabilities:		
Management fee payable to the New Jersey Economic Development Authority (NJEDA)	$ 30,595	$ 30,595
Deposits and other payables	1,175	17
Deferred Revenues	36,500	62,000
	68,270	92,612
Noncurrent Liabilities:		
Payable to the State of New Jersey	290,000	290,000
Deferred Revenues	124,583	128,000
	414,583	418,000
Total Liabilities	482,853	510,612
Net Assets-unrestricted	2,765,789	2,725,990
Total Liabilities and Net Assets	$3,248,642	$3,236,602

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

Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended December 31 2005	2004
Operating Revenues:		
Financing fees	$ 36,625	$ 37,166
Interest income-notes	93,131	103,091
Agency fees	50,000	50,000
Entrepreneurial training fees and contributions	121,632	119,780
Other	4,835	3,765
Loss Recoveries	40,096	
Total Operating Revenues	346,319	313,802
Operating Expenses:		
Management fee to NJEDA	367,140	367,140
Program costs	115,343	125,417
Loss provisions		267,707
Total Operating Expenses	482,483	760,264
Operating loss	(136,164)	(446,462)
Nonoperating revenues:		
Interest income-investments	175,963	70,474
Increase (decrease) in net assets	39,799	(375,988)
Net assets-beginning of year	2,725,990	3,101,978
Net assets-end of year	$2,765,789	$2,725,990

See accompanying notes.

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

Statements of Cash Flows

	Year ended December 31	
	2005	**2004**
Cash flows from operating activities		
Financing fees	$ 37,638	$ 36,135
Interest income-notes	92,269	104,399
Agency fees	50,000	50,000
Entrepreneurial training fees, contributions, and other	77,391	193,345
Servicing Fees	20,158	120,200
Loss Recovery	3,876	18,900
Management fees paid to the NJEDA	(367,140)	(367,140)
Program costs	(115,819)	(126,278)
Collection of notes receivable	831,031	572,229
Note disbursements	(653,556)	(352,244)
Deposits and other	1,175	(200)
Net cash (used in) provided by operating activities	(22,977)	249,346
Cash flows from investing activities		
Interest income-investments	136,495	70,474
Net cash provided by investing activities	136,495	70,474
Net increase in cash and cash equivalents	113,518	319,820
Cash and cash equivalents-beginning of year	1,701,731	1,381,911
Cash and cash equivalents-end of year	$1,815,249	$1,701,731
Reconciliation of Operating Loss to Net Cash provided by (used in) Operating Activities		
Operating loss	$ (136,164)	$ (446,462)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Loss provisions	(36,220)	286,607
Change in assets and liabilities:		
Notes receivable	177,475	219,985
Interest receivable - notes	(862)	1,308
Other receivables	1,012	(1,030)
Prepaids	1,368	(463)
Inventory	(1,827)	(415)
Deferred revenues	(28,917)	190,000
Other payables	1,158	(184)
Net cash (used in) provided by operating activities	$ (22,977)	$ 249,346

See accompanying notes.

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 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.

(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.

Note 2: Summary of Significant Accounting Policies (continued)

(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.

Note 2: Summary of Significant Accounting Policies (continued)

(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, 2005, the carrying amount of the Authority deposits was $137,391 and the bank balance was $122,216. Of the bank balance, $100,000 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, 2005 and 2004, the Authority balance is $1,677,858 and $1,336,033 respectively.

Custodial Credit Risk. Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure. The Authority does not have a policy for custodial credit risk.

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.

Note 3: Cash and Cash Equivalents and Investments (continued)

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 7.75% 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.

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, 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. In 2005, the CRDA permitted an Atlantic City casino to make a $700,000 direct investment in a project, in fulfillment of its obligation.

Total donations received since inception amount to $9,488,304 at December 31, 2005. Funds held by the CRDA and set aside until received by the Authority amount to $14,412,011 and $13,825,047 at December 31, 2005 and 2004, respectively.

Note 8: Commitments and Contingencies

(a) Loan Program and Capital Investments

At December 31, 2005, the Authority has $50,000 of 1st generation direct investment commitments not yet closed or disbursed and $903,023 of 2nd generation loan commitments not yet closed or disbursed.

(b) Loan Guarantee Program

At December 31, 2005, the Authority has no existing guarantees.

NJDA Assisted Projects 2005

L.D.	Name of Applicant	Municipality	County	Project Type	Est Jobs	Const Jobs	NJDA Financing Amount	Total Proj Cost	Closing Date	Project Type
2	ABC Child Discovery and Learning Center, LLC	Egg Harbor Twp.	Atlantic	DC	6	1	$15,000	$118,985	10/26/2005	Day Care
2	Planet Rose, LLC	Atlantic City	Atlantic	CM	14	21	$700,000	$935,600	3/3/2005	Commercial
8	DBJBMB, LLC	Moorestown Twp.	Burlington	SV	3	0	$100,000	$276,300	2/1/2005	Services
1	Joseph H. Fleck and Donna M. Fleck	Lower Twp.	Cape May	CM	5	0	$80,000	$201,500	1/3/2005	Commercial
3	Karena Enterprises, L.L.C.	Bridgeton City	Cumberland	CM	5	6	$108,446	$397,320	9/30/2005	Commercial
1	Obed Bermudez and Marilyn Bermudez	Vineland City	Cumberland	DC	4	0	$127,690	$207,690	11/30/2005	Day Care
4	MR Daycare Corp.	Franklin Twp.	Gloucester	SV	0	0	$34,791	$34,791	2/8/2005	Services
4	Starcross Legacy Corporation	Franklin Twp.	Gloucester	DC	6	0	$77,454	$342,245	2/7/2005	Day Care
32	Family Food Distributors, Inc.	Kearny Town	Hudson	WS	4	0	$65,000	$101,325	7/1/2005	Wholesale
15	Ewing Auto Body by F.M., LLC and Smith and Pineda	Ewing Twp.	Mercer	SV	4	0	$77,500	$340,075	7/25/2005	Services
35	Cristina Natale Inc. and Cristina Natale, LLC	Paterson City	Passaic	MF	7	0	$50,000	$355,000	9/30/2005	Manufacturing
	Total: 11 NJDA Projects				**58**	**28**	**$1,435,881**	**$3,310,831**		