

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

**2007 ANNUAL REPORT**

**Prepared: April 2008**

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

**2007 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, 2007 through December 31, 2007, including financial assistance, entrepreneurial training, and business mentoring activities to support small business development and growth.

#### **Financial Assistance**

In 2007, NJDA direct loans were awarded to three projects, providing a total of \$250,000 in low-interest financing. These loans will support the creation of an estimated 12 new, full-time jobs, and leverage over \$730,000 in public/private investment in New Jersey. See attachment for list of assisted businesses.

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

Entrepreneurial Training Institute (ETI) sessions for new and aspiring business owners provided through the EDA were offered on a limited schedule in 2007 as EDA staff worked directly with the Office of Economic Growth to define a broader, customer-centric technical assistance model to enhance small business growth in New Jersey. The net result of this effort was an enhanced business portal at [www.NewJerseyBusiness.gov](http://www.NewJerseyBusiness.gov), which provides in-depth information on State resources for businesses. EDA staff created a Funding and Incentive Resource List, available on the business portal, that is sorted by county and city to ensure entrepreneurs and service providers can tap into financing opportunities throughout the State.

In 2007, ETI offered multiple levels of technical assistance including access to 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.

As an expansion of traditionally held panel review sessions that provided opportunities for ETI graduates to receive feedback from professionals, two larger-scale events were held at EDA's offices in Trenton in 2007. "Open Door Day for Entrepreneurs," held in June and December, provided an opportunity for aspiring entrepreneurs to present their business plans to a panel of

business service professionals to determine if their companies were ready to apply for funding. In addition to the presentations, representatives from small business assistance organizations and several state agencies including the Office of Economic Growth, the NJ Department of Labor and Workforce Development, the NJ Commerce Commission, and the NJ State Library were on-site to consult with each of the attendees. Participants received guidance on essential processes required to launch and grow a business, such as registering their company, obtaining appropriate certification, and the various types of lending programs available through the State.

ETI also provided direct assistance to over 3,000 individuals in 2007. ETI held both a spring and fall session, which included workshops and classes in southern, central and northern New Jersey. In addition to helping these existing small business owners, approximately 3,000 aspiring entrepreneurs utilized ETI's web-based Self-Assessment Tool available on the EDA's web site.

Merrill Lynch provided a grant of \$10,000 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 2007, business mentors delivered approximately 25 software packages to graduates and provided guidance for installation and functionality.

**2007 Success Story:**

*All About Hair Salon, Lumberton*



*All About Hair Salon owner Angela Milton, seated, with stylists, from left, Dannielle, Michelle, Golda-Ann, Chemmita and Anita*

In 2007, a \$60,000 NJDA loan helped Angela Milton re-establish the All About Hair Salon in Lumberton and hire five full-time employees. The project had a total cost of \$100,000, which consisted of leasehold improvements, equipment purchases and working capital.

ETI alumni enjoyed many successes in 2007. James Smith completed the ETI program and began his executive search firm, J. Anderson & Associates, Inc., in Sussex County targeting large vendors in the telecom sector. Sharon Gould made her hobby her career by opening Lucky Dog Racewear, Inc., a retailer of NASCAR clothing and memorabilia, in Burlington County. Anthony Lamme launched his free family and friends social networking website, FAMZAM, in Bergen County with \$150,000 in funding from Columbia Bank, which became familiar with his

business plan during the ETI classes. In 2007, 39 businesses run by ETI graduates officially opened their doors, and five other businesses received a total of nearly \$1 million in financing assistance.

NJBIZ also recognized six ETI graduates in its 2007 Entrepreneur 101 issue, including fall 2003 graduates, Marc and Shira Balzer. In 2004, Marc and Shira opened Imagine Audio, a Cherry Hill-based company that sells and installs sound and multimedia systems in cars and other vehicles. Today, Imagine Audio is a thriving small business with approximately \$1.3 million in annual sales in 2007. NJBIZ selected the 26 profiled entrepreneurs from more than 200 nominations.

### **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.

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: Cooperative Business Assistance Corporation (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.

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

**BOARD MEMBERS**

Chair

**Maria Efstratiades**

Ex Officio Members

**Kevin Drennan**

Executive Director

NJ Commerce Commission

**Donald Newman** (Designee)

**David Rousseau**

State Treasurer

NJ Department of Treasury

**Alberta Hyché** (Designee)

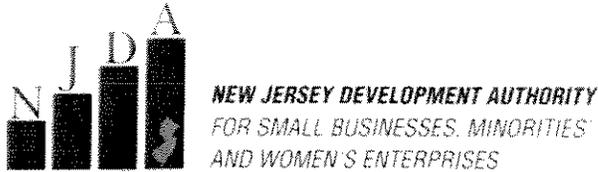
**Caren Franzini**

Chief Executive Officer

NJ Economic Development Authority

NJDA Assisted Projects 2007

L.D. Name of Applicant	Municipality	County	Project Type	Est Jobs	Const Jobs	NJDA Financing Amount	Total Proj Cost	Closing Date	Project Type
8 All About Hair Salon, Inc.	Lumbertown Twp.	Burlington	SV	5	1	\$60,000	\$100,000	5/29/2007	personal services
19 Access Capital International Corp. Shore Arthritis and Rheumatism Associates Corporation	Perth Amboy	Middlesex	SV	3	0	\$120,000	\$492,000	1/31/2007	finance, insurance and real estate
12	Ocean Twp.	Monmouth	SV	4	0	\$70,000	\$139,000	8/29/2007	health care
<b>Total: 3 NJDA Projects</b>				<b>12</b>	<b>1</b>	<b>\$250,000</b>	<b>\$731,000</b>		



April 17, 2008

In accordance with Executive Order No. 37 issued by Governor Jon S. Corzine on September 26, 2006, the 2007 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, Mercadien, PC, dated March 17, 2008, 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 2007, the Authority has to the best of my knowledge, followed all of the Authority's standards, procedures and internal controls.

Sincerely,

A handwritten signature in black ink, appearing to read "Caren S. Franzini". The signature is fluid and cursive, with the first name being the most prominent.

Caren S. Franzini  
Secretary of the Board

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
New Jersey Development Authority for Small Businesses, Minorities' & Women's  
Enterprises (A Component Unit of the State of New Jersey)

We have audited the accompanying basic financial statements of the New Jersey Development Authority for Small Businesses, Minorities' & Women's Enterprises, a component unit of the State of New Jersey (the "Authority") as of and for the year ended December 31, 2007. 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 audit. The financial statements of the Authority as of and for the year ended December 31, 2006, were audited by other auditors, whose report dated February 2, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Authority as of December 31, 2007, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PENNSYLVANIA OFFICE:  
86 BUCH ROAD  
HOLLAND, PA 18966  
TEL 215-355-4860  
FAX 215-825-8110

- ◊ CPA USA NETWORK
- ◊ AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ NEW YORK SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ PENNSYLVANIA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ PRIVATE COMPANIES PRACTICE SECTION
- ◊ CENTER FOR PUBLIC COMPANY AUDIT FIRMS
- ◊ REGISTERED WITH THE PCAOB
- ◊ AN INDEPENDENTLY OWNED MEMBER OF THE  
RSM MCGLEADREY NETWORK

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2008, 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.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Mercaderin, P.C.*  
*Certified Public Accountants*

March 17, 2008

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

(A Component Unit of the State of New Jersey)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Years Ended December 31, 2007 and 2006

This section of the New Jersey Development Authority for Small Businesses, Minorities' & Women's Enterprises' (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years that ended on December 31, 2007, and December 31, 2006. Please read it in conjunction with the Authority's financial statements and accompanying notes, which follow this section.

**2007 FINANCIAL HIGHLIGHTS**

- The Authority's total net assets decreased \$274,010 (or 11.0%) primarily due to a decline in Entrepreneurial Training Institute ("ETI") contributions and training fees, in addition to a decrease in interest income on investments.
- Operating revenues decreased by \$16,735 (or 7.3%) primarily due to a decline in ETI contributions made by various commercial banks.
- Operating expenses excluding loss provisions decreased \$18,505 (or 3.6%) primarily due to a decrease in technical assistance costs for the ETI.
- Interest income-investments decreased by \$16,743 (or 24.1%) primarily due to a lower average balance in the State of New Jersey Cash Management Fund.
- Operating loss decreased by \$20,048 (or 5.8%) primarily due to a decrease in loss provisions and ETI consulting expense.

**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 loss provisions 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 loss provisions and ETI consulting expense, along with a decrease in ETI contributions.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**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 net assets as of December 31, 2007, 2006, and 2005.

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Current Year Percentage Increase (Decrease)</u>	<u>Prior Year Percentage Increase (Decrease)</u>
Current and non-current assets	\$ 2,647,742	\$ 2,936,527	\$ 3,248,642	(9.8)%	(9.6)%
Total assets	<u>\$ 2,647,742</u>	<u>\$ 2,936,527</u>	<u>\$ 3,248,642</u>	(9.8)%	(9.6)%
Current liabilities	\$ 49,695	\$ 48,970	\$ 68,270	1.5%	(28.3)%
Noncurrent liabilities	<u>383,583</u>	<u>399,083</u>	<u>414,583</u>	(3.9)%	(3.7)%
Total liabilities	433,278	448,053	482,853	(3.3)%	(7.2)%
Net assets:					
Unrestricted	<u>2,214,464</u>	<u>2,488,474</u>	<u>2,765,789</u>	(11.0)%	(10.0)%
Total liabilities and net assets	<u>\$ 2,647,742</u>	<u>\$ 2,936,527</u>	<u>\$ 3,248,642</u>	(9.8)%	(9.6)%

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

The following table summarizes the operating and nonoperating activities of the Authority for the years ended December 31, 2007, 2006 and 2005.

	<u>2007</u>	<u>2006</u>	<u>2005</u>	Current Year Percentage Increase (Decrease)	Prior Year Percentage Increase (Decrease)
Operating revenues					
Financing fees	\$ 22,850	\$ 29,745	\$ 36,625	(23.2)%	(18.8)%
Interest income-notes	93,818	81,753	93,131	14.8%	(12.2)%
Agency fees	50,000	50,000	50,000	0%	0%
Entrepreneurial training fees and contributions	42,665	64,708	121,632	(34.1)%	(46.8)%
Loss recoveries	-	-	40,096	0%	(100.0)%
Other	3,886	3,748	4,835	3.7%	(22.5)%
Total operating revenues	<u>213,219</u>	<u>229,954</u>	<u>346,319</u>	(7.3)%	(33.6)%
Expenses					
Management fee to NJEDA	367,140	367,140	367,140	0%	0%
Program costs	134,465	152,970	115,343	(12.1)%	32.6%
Loss provisions	38,268	56,546	-	(32.3)%	100.0%
Total operating expenses	<u>539,873</u>	<u>576,656</u>	<u>482,483</u>	(6.4)%	19.5%
Operating loss	(326,654)	(346,702)	(136,164)	(5.8)%	154.6%
Nonoperating revenues					
Interest income-investments	52,644	69,387	175,963	(24.1)%	(60.6)%
(Decrease) increase in net assets	(274,010)	(277,315)	39,799	(1.2)%	(796.8)%
Beginning net assets	<u>2,488,474</u>	<u>2,765,789</u>	<u>2,725,990</u>	(10.0)%	1.5%
Ending net assets	<u>\$ 2,214,464</u>	<u>\$ 2,488,474</u>	<u>\$ 2,765,789</u>	(11.0)%	(10.0)%

**2007 Activity:**

Financing fees and program volume: (applications, commitments, closing, and servicing fees) of \$22,850 are 23.2% lower than last year's of \$29,745, due to fewer commitments extended and fewer loan closings 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: This program is offered at a discount to help aspiring and new entrepreneurs learn the basics of operating a business, yet is split into two classes, one being a prerequisite class for the other. The ETI recognized \$25,000 in donations from various commercial banks during the year, compared to last year's donations of \$40,100. In addition, ETI incurred \$26,602 less in consulting and instruction expenses. These factors contributed towards the decreased program deficit of \$80,418, compared to last year's deficit of \$86,986. Contributions are solicited by staff and will vary from year to year.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

**2007 Activity (Continued):**

Entrepreneurs assisted or trained have decreased 28% this year due to offering a reduced schedule of classes. The ETI staff's focus was primarily on the Governor's Economic Growth Strategy. This strategy entailed analysis of existing technical assistance and structured a statewide customer-focused Enterprise Development System aligning all technical assistance services.

Interest Income from Notes: of \$93,818 is 14.8% higher than last year's \$81,753 due to a higher annualized interest rate on notes this year (5.63%) than last year (4.14%), despite having a smaller portfolio. 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 \$52,644 is 24.1% lower than last year's due to a combination of having a higher average interest rate (5.06%) this year than last year (4.86%), despite a lower average cash balance this year (\$1.05 million) than last year (\$1.44 million) on the Authority's deposits.

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 \$134,465 are 12.1% lower than last year's due to a decrease in consulting expenses associated with the administration of the ETI.

Loss Provisions: have been affected by a mix of variables; \$66,270 increase due to risk rating changes to the existing portfolio; \$35,814 increase due to new financings; \$60,877 decrease due to repayments of principal; and \$2,939 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, 2007, the Authority is entitled to receive \$16,607,932 of obligations held by the Casino Reinvestment Development Authority ("CRDA").

Legislative Financing Mandate: The funding provided to the Authority by CRDA is subject to legislatively defined mandates. During 2007, there were no first generation financings.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

**2007 Activity (Continued):**

At December 31, 2007, the Authority had \$3,720 of funds subject to first generation requirements; accumulative results follow:

<u>Mandate Type</u>	<u>Accumulative Mandate Amount 1984-2008</u>	<u>Accumulative Actual Closed 1984-2007</u>	<u>Actual/Mandate</u>
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	52.5%
South Jersey	\$ 7,690,872	\$ 1,394,628	18.1%
North Jersey	\$ 5,476,048	\$ 870,999	15.9%

Through December 31, 2007, second generation fund mandates, which encompass all available funding other than first generation funds, were calculated at \$1,304,703; results for the year follow:

<u>Mandate Type</u>	<u>Mandate Amount</u>	<u>Actual Closed</u>	<u>Actual/Mandate</u>
Small Business-50%	\$ 652,351	\$ -	0%
Women-25%	\$ 326,176	\$ 60,000	18.4%
Minority-25%	\$ 326,176	\$ 190,000	58.3%

**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 year's 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.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

**2006 Activity (Continued):**

Interest Income from Notes: of \$81,753 is 12.2% 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 State of New Jersey Cash Management Fund 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 32.6% 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 first generation financings.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended December 31, 2007 and 2006

**FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)**

**2006 Activity (Continued):**

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

<u>Mandate Type</u>	<u>Accumulative Mandate Amount 1984-2008</u>	<u>Accumulative Actual Closed 1984-2006</u>	<u>Actual/Mandate</u>
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	52.5%
South Jersey	\$ 7,690,872	\$ 1,394,628	18.1%
North Jersey	\$ 5,476,048	\$ 870,999	15.9%

Through December 31, 2006, second generation fund mandates, which encompass all available funding other than first generation funds, were calculated at \$1,925,695; results for the year follow:

<u>Mandate Type</u>	<u>Mandate Amount</u>	<u>Actual Closed</u>	<u>Actual/Mandate</u>
Small Business-50%	\$ 962,847	\$ 406,476	42.2%
Women-25%	\$ 481,424	\$ 290,000	60.2%
Minority-25%	\$ 481,424	\$ -	0%

**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' & WOMEN'S ENTERPRISES**

(A Component Unit of the State of New Jersey)

BALANCE SHEETS

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,215,083	\$ 1,213,859
Receivables		
Notes	172,289	188,828
Accrued interest on notes	3,999	4,617
Miscellaneous receivables	-	18
Total receivables	<u>176,288</u>	<u>193,463</u>
Total current assets	1,391,371	1,407,322
Noncurrent assets		
Receivables		
Notes	1,494,356	1,783,623
Allowance for doubtful notes and guarantee losses	<u>240,191</u>	<u>256,676</u>
Net receivables	1,254,165	1,526,947
Entrepreneurial Training Institute inventory	<u>2,206</u>	<u>2,258</u>
Total noncurrent assets	<u>1,256,371</u>	<u>1,529,205</u>
Total assets	<u>\$ 2,647,742</u>	<u>\$ 2,936,527</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Management fee payable to the New Jersey Economic Development Authority (NJEDA)	\$ 30,595	\$ 30,595
Deposits and other payables	3,600	2,875
Deferred revenues	<u>15,500</u>	<u>15,500</u>
Total current liabilities	49,695	48,970
Noncurrent liabilities		
Payable to the State of New Jersey	290,000	290,000
Deferred revenues	<u>93,583</u>	<u>109,083</u>
Total noncurrent liabilities	<u>383,583</u>	<u>399,083</u>
Total liabilities	433,278	448,053
Net assets-unrestricted	<u>2,214,464</u>	<u>2,488,474</u>
Total liabilities and net assets	<u>\$ 2,647,742</u>	<u>\$ 2,936,527</u>

See notes to financial statements.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>Year Ended December 31.</u>	
	<u>2007</u>	<u>2006</u>
Operating revenues		
Financing fees	\$ 22,850	\$ 29,745
Interest income-notes	93,818	81,753
Agency fees	50,000	50,000
Entrepreneurial training fees and contributions	42,665	64,708
Other	<u>3,886</u>	<u>3,748</u>
Total operating revenues	<u>213,219</u>	<u>229,954</u>
 Operating expenses		
Management fee to NJEDA	367,140	367,140
Program costs	134,465	152,970
Loss provisions-net of recoveries	<u>38,268</u>	<u>56,546</u>
Total operating expenses	<u>539,873</u>	<u>576,656</u>
Operating loss	<u>(326,654)</u>	<u>(346,702)</u>
 Nonoperating revenues		
Interest income-investments	<u>52,644</u>	<u>69,387</u>
Change in net assets	(274,010)	(277,315)
Net assets, beginning of year	<u>2,488,474</u>	<u>2,765,789</u>
Net assets, end of year	<u>\$ 2,214,464</u>	<u>\$ 2,488,474</u>

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

(A Component Unit of the State of New Jersey)

STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Financing fees	\$ 22,850	\$ 29,745
Interest income-notes	94,455	81,874
Agency fees	50,000	50,000
Entrepreneurial training fees, contributions, and other	15,551	16,456
Servicing fees	15,500	15,500
Loss recovery	2,939	4,002
Management fees paid to the NJEDA	(367,140)	(367,140)
Program costs	(134,414)	(152,642)
Collection of notes receivable	445,595	359,740
Note disbursements	(197,481)	(749,479)
Deposits and other	725	1,700
Net cash used in operating activities	<u>(51,420)</u>	<u>(710,244)</u>
 Cash flows from investing activities		
Interest income-investments and net cash provided by investing activities	<u>52,644</u>	<u>108,854</u>
Net increase (decrease) in cash	1,224	(601,390)
Cash and cash equivalents-beginning of year	<u>1,213,859</u>	<u>1,815,249</u>
Cash and cash equivalents-end of year	<u>\$ 1,215,083</u>	<u>\$ 1,213,859</u>
 Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (326,654)	\$ (346,702)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Loss provisions	41,207	60,548
Change in assets and liabilities:		
Notes receivable	248,114	(389,739)
Interest receivable-notes	618	121
Other receivables	18	-
Inventory	52	328
Deferred revenues	(15,500)	(36,500)
Other payables	725	1,700
Net cash used in operating activities	<u>\$ (51,420)</u>	<u>\$ (710,244)</u>

See notes to financial statements.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

**A. NATURE OF THE AUTHORITY AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

New Jersey Development Authority for Small Businesses, Minorities' & Women's Enterprises (the "Authority") is a public body corporate and politic, constituting an instrumentality and component unit of the State of New Jersey (the "State"). The Authority was established by Chapter 386, P.L. 1985 (the "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.

**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.

**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.

**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.

**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.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

**A. NATURE OF THE AUTHORITY AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Taxes**

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

**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 all highly liquid debt instruments with a maturity of ninety days or less when acquired to be cash equivalents.

**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.

**B. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**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, 2007, the carrying amount of the Authority's deposits was \$34,583 and the bank balance was \$21,489. Of the bank balance, all was insured by the Federal Deposit Insurance Corporation.

**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, 2007 and 2006, the Authority had balances of \$1,180,500 and \$1,158,418, respectively.

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

**B. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

*Custodial Credit Risk:* Pursuant to GASB Statement No. 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 Statement No. 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 one year.

**C. 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 prorata share of the loan payments.

Aggregate notes receivable activity for the years ended December 31, 2007 and 2006 was as follows:

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

December 31, 2006	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures- Net	December 31, 2007	Amounts Due Within One Year
\$ 1,972,451	\$ 197,481	\$ (445,595)	\$ (57,692)	\$ 1,666,645	\$ 172,289

**NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL  
BUSINESSES, MINORITIES' & WOMEN'S ENTERPRISES**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

**D. 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, 2007 and 2006, repayments have not commenced.

**E. 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.

**F. 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.

NJDA is restricted in how it can utilize its monies. Monies obtained from CRDA (considered first Generation Funds for Available Cash purposes) are to be utilized in a manner consistent with the Casino Control Act (restricted both geographically and demographically). However, monies from other sources (considered second Generation Funds) are not restricted geographically. The usage of second Generation Funds is restricted demographically as follows: 50% to small businesses, 25% to minorities, and 25% to women.

Total donations received since inception amount to \$9,488,304 at December 31, 2007. Funds held by the CRDA and set aside until received by the Authority amount to \$16,607,932 and \$15,506,392 at December 31, 2007 and 2006, respectively.

**G. COMMITMENTS AND CONTINGENCIES**

**Loan Program and Capital Investments**

At December 31, 2007, the Authority has \$95,708 of second generation loan commitments not yet closed or disbursed. There are no first generation direct investment commitments.

**Loan Guarantee Program**

At December 31, 2007, the Authority had no existing guarantees.

## SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of

New Jersey Development Authority for Small Businesses, Minorities' & Women's  
Enterprises (A Component Unit of the State of New Jersey)

We have audited the accompanying basic financial statements of the New Jersey  
Development Authority for Small Businesses, Minorities' & Women's Enterprises, a  
component unit of the State of New Jersey (the "Authority"), as of and for the year  
ended December 31, 2007, and have issued our report thereon dated March 17, 2008.  
We conducted our audit in accordance with auditing standards generally accepted in  
the United States of America 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 basic 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 prevented or detected by the entity's internal  
control.

PENNSYLVANIA OFFICE:  
86 BUCK ROAD  
HOLLAND, PA 18966  
TEL 215-355-4860  
FAX 215-825-8110

- CPA USA NETWORK
- AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- PRIVATE COMPANIES PRACTICE SECTION
- CENTER FOR PUBLIC COMPANY AUDIT FIRMS
- REGISTERED WITH THE PCAOB
- AN INDEPENDENTLY OWNED MEMBER OF THE  
RSM MCGladREY NETWORK

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS (CONTINUED)*

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management, the board of directors, the audit committee, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

*Mercaderin, P.C.*  
*Certified Public Accountants*

March 17, 2008