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Expiration Date:

Certified Development Company (CDC) Annual Report Guide

INTRODUCTION

CDCs are required to submit an annual report on their operations to SBA. (13 CFR, §§ 120.826 and 120.830) All reports are to be prepared in accordance with the instructions and attachments set forth in this guide. CDCs are requested to submit the annual reports with their operational analysis memorandum to the District Office, electronically.

CDCs may include, along with the annual report, a request for Priority status, Accredited Lenders Program (ALP) status, ALP renewal, a Local Economic Area (LEA) expansion request or a Multi-state status request (“status request”). If the CDC chooses to do so, the CDC must clearly indicate in its annual report that a status request is included. CDCs are reminded to refer to ALP guidance in SOP 50 10 when preparing their ALP applications or renewal requests. OFA and OCRM staff when reviewing either the annual report or the status request may ask for updated information as needed to complete the review. Any status request submitted along with a CDC’s annual report must meet SBA’s Loan Program Requirements for the status request.

Submission Requirements: In order to ensure uniform and comparable data by all CDCs, the report has been designed to standardize reporting requirements. Unless submitted electronically, each report must be submitted on 8.5 by 11-inch paper with tabs that correspond with the tabs indicated in this guide.

The annual report, whether submitted electronically or as a hard copy, must include all of the required documents, signatures and attachments and conform with the instructions set forth in this annual report guide. CDCs that choose to submit hard copies of their annual report to SBA must provide two copies to the District office serving the area where the CDC’s headquarters is located: one for the District office to retain and one to be forwarded to SBA HQ. The CDCs relevant District office can be found at www.SBA.gov.

Timing: The annual report, unless submitted electronically, must contain the original and one copy filed with the SBA field office serving the area where the CDC’s headquarters is located within 180 days after the end of the CDC’s fiscal year. **Incomplete or unacceptable reports will be returned to the District office and CDC and will not fulfill the requirement.** A CDC that is certified by SBA within 6 months of the CDC’s fiscal year-end is not required to submit an Annual Report for that year. **If a CDC does not submit its annual report in a timely manner, this will be reported to OCRM and any status requests a CDC has submitted will not be processed by OFA or OCRM until such time as the completed report is submitted. If a CDC’s status expires because its annual report was not submitted, the CDC will have to reapply.**

ORGANIZATION OF THE ANNUAL REPORT

TAB 1. **Economic Development Report**

The Economic Development Report is designed to provide local economic information as well as analytical data on the impact of the CDC's non-504 assistance to small business. This report must include the following information in the order described:

- A. Comments on the general lending and business environment and a summary of events affecting the CDC's area of operations such as local economic changes, plant closings, major community events, etc. (For Multi-State CDCs, these comments must be provided for each state.)
- B. A brief summary by non-SBA program (such as UDAGs, HUD 108 CDBG, EDA, USDA and so on) of the CDC's loan activity and the impact of this activity on the CDC's area of operations and its portfolio. The summary must include the following by program and by state:
 1. For lending programs, the number of years the CDC has participated in the program and the number of loans approved during the fiscal year.
 2. For non-lending programs, the number of years the CDC has participated in the program as well as a description of the relevance of the program for local economic development.
- C. A brief summary by SBA program not including the 504 loan program (such as 7(a) packaging, pre-qualification or microloans) of the CDC's activity and the impact of this activity on the CDC's area of operations and its portfolio. The summary for each program must include the number of years the CDC has participated in the program and the number of loans approved or applications packaged during the fiscal year by state.
- D. An economic development strategy that details the efforts the CDC will undertake during the upcoming fiscal year to serve its area of operations. This would include projections for 504 loan activity. (For Multi-State CDCs, these comments must be provided for each state.)

TAB 2. **Operating Report**

- A. Officers/Directors/Staff Listing (as of the end of the CDC's fiscal year:
 1. Board of Directors. Organize (by state if a Multi-State CDC) as follows:
 - a) director's name;
 - b) area of each director's expertise;
 - c) the director's occupation, business address, and business telephone number; and
 - d) if an officer of the board, what office.
 - e) Documentation of Directors' and Officers' and Errors and Omissions Insurance

(Note: Changes from the previous CDC fiscal year must be noted with an asterisk.)

2. Loan Committees

If the CDC has a Loan Committee, provide the name and area of expertise of each Loan Committee member.

(For Multi-State CDCs, submission of loan committee information by state is a requirement.)

3. Executive Committee

If the CDC has an Executive Committee, provide the name and area of expertise of each Executive Committee member.

4. Professional Staff. Organize by CDC office location as follows:

- a) Staff organizational chart which reflects the structure of the CDC and the relationship amongst personnel and departments;
- b) A listing of all CDC staff by name, position title, function and years of 504 loan experience; (marketing; screening, packaging and processing; closing; servicing; liquidation; management);
 - i) if the individual fulfills more than one 504 loan program staff function, identify each function and the approximate percentage of time that the person spends on each activity [such as screening, packaging and processing (75 percent), servicing (25 percent)];
 - ii) if the individual is contributed by a non-profit affiliate, identify the affiliate and the approximate time the individual spends on CDC-related activities versus affiliate-related activities [such as affiliate-related activities (50 percent) and CDC-related activities (50 percent)]; and
 - iii) if applicable, any CDC office the staff person holds.

5. Contracts. CDC must provide:

- a) A copy of all contracts for management and staff that the CDC currently has in place and a copy of the waiver request as required in 13 C.F.R. 120.824(a), if applicable. (Note: This is not required for the CDC's attorney or accountant.);
- b) A copy of the board's resolution approving the contract (the signed minutes must include the names of the board members present);
- c) Any justification by the board of the need for the contract, including any analysis that the cost is reasonable and customary for similar services in the area of operations;
- d) A copy of the written board explanation for why it believes that it is in the best interest of the CDC to contract for a management, marketing, packaging, processing, closing or liquidation function. The board's explanation must demonstrate to SBA that:
 - i. the compensation under the contract is only from the CDC, is reasonable and customary for similar services in the area of operations and is only for actual services provided;
 - ii. the full term of the contract (including options) is reasonable; and

- iii. the contract does not evidence any actual or apparent conflict of interest or self-dealing on the part of any of the CDC's officers, management and staff including members of the board and any loan committee.

6. Affiliations with entities (other than a 7(a) lender or another CDC)

7. Affiliations with for-profit entities prior to [date of Final Rule]

B. CDC Board Meetings. Organize as follows:

1. Dates of the CDC Board meetings during the fiscal year;
2. Names of the board members present including identifying which of the required areas of expertise the board member represents; and
3. A listing of the borrower names (to include the loan numbers if available) of any 504 loans approved during the meeting.
4. List of board members with commercial lending experience, title, lending institution and number of years of experience. Specify if one is the CDC manager.

(Note: Board minutes may be accepted instead IF the minutes are signed and provide all of the required information.)

Loan Committee Meetings

If in addition to the board meetings, the CDC has Loan Committee meetings, the same information listed under CDC Board Meetings above must be supplied **as well as the date the board ratified the actions of the loan committee.** (For Multi-State CDCs, submission of loan committee information by state is a requirement.)

C. Executive Committee Meetings

If in addition to the board meetings, the CDC has loan committee meetings, the same information listed under CDC Board Meetings above must be supplied.

D. Legal. Provide a statement signed by the CDC's Secretary or Legal Counsel that certifies to the following:

1. All changes to the Articles of Incorporation or By-Laws made during the CDC's fiscal year have been submitted to the SBA District office with the date of the change(s), or a signed certification that no changes have been made.
2. The CDC's Board of Directors and any Loan and Executive Committees are in compliance with SBA regulations governing CDCs.
3. If the CDC is involved in any legal proceeding as a plaintiff or defendant, SBA has been adequately notified (a summary description of any legal proceedings must be included) with the date SBA was notified and which office was notified, or a signed certification that the CDC is not involved in any legal proceedings.

TAB 3. Financial Report –

13 C.F.R 120.830 contains the requirements for a CDC's annual Financial Report. CDCs must review this regulation to ensure compliance as the following is merely a summary of the financial reporting requirements.

Level of review

For CDCs with a 504 loan portfolio balance of \$20 million dollars or more (as calculated by SBA), the CDC's Financial Report must include audited financial statements prepared by an independent certified public accountant (CPA) in accordance with Generally Accepted Accounting Principles.

For CDCs with a 504 loan portfolio balance of less than \$20 million dollars (as calculated by SBA), the CDC's Financial Report must include financial statements reviewed by an independent certified public accountant (CPA) in accordance with Generally Accepted Accounting Principles.

Affiliates. The CDC's report must include audited or reviewed, as applicable, financial statements of all CDC subsidiaries and affiliates. For all audited or reviewed Financial Reports, refer to 13 C.F.R. 120.826(c) and (d) for CPA requirements.

If any of the CDC's staff is provided by an affiliate of the CDC, and/or if an affiliate subsidizes the CDC's operations, the CDC must also provide a copy of the financial statements of the affiliate.

Contents of Financial Report

The Financial Report must include the following statements:

- A. **Audited or reviewed balance** Sheet
(Note: Neither SBA nor the Central Servicing Agent provides 504 loan balances to the CDC's accountant for purposes of preparing the CDC's financial statements because the CDC is only contingently liable.)
- B. Changes in Financial Position;
- C. Audited or reviewed statement of income (or receipts) and expenses (see below for additional details).
- D. Audited or reviewed statement of source and application of funds; and either:
 - (1) For audited statements, the auditor's letter to management on internal control weaknesses and auditor's report; or
 - (2) For reviewed statements, the CPA's review report.
- E. Investment Approved by CDC board during budget approval and update reviews
- F. Compliance with insurance requirement. Copy of policies for D&O and E&O.
- G. Report on investment in economic development.

H. Additional Information.

Note: If the Income Statement does not include the following 504-specific income and expense amounts, then a separate listing must be attached that details the following amounts. (For Multi-State CDCs, this listing must be provided for each state.)

504-Related Income

1. Applicants/Approved Borrowers 504 Loan Deposits
2. 504 Processing Fee Income (and the dollar amount of debentures funded)
3. 504 Closing Fee Income (excluding CDC attorney's fees)
4. 504 Servicing Fee Income
5. 504 Late Fee Income
6. 504 Assumption Fee Income
7. 504 Escrow Float Interest Income
8. Other 504-Related Income *

504-Related Expense

1. 504 Marketing, Screening, Packaging and Processing Staff Expense
2. 504 Servicing Staff Expense
3. 504 Closing Staff Expense (excluding CDC attorney expense)
4. CDC Management Staff Expense
5. Other 504-Related Expense *
6. Funds invested in other economic development (for multi-states, funds must be invested in economic development in each state in which the funds were generated).

* Identify what these miscellaneous items are.

TAB 4. Analysis of 504 Employment Impact

Attached is an example format for submission to SBA of the CDC Analysis of Economic Impact.

The definition of "Jobs Created" or "Jobs Retained" is the following:

Jobs Created: Full-time equivalent (8 productive hours per day/40 productive hours per week) permanent or contracted employment created within 2 years of financing.

Jobs Retained: Jobs that otherwise **might be lost to the community** if the project was not done. **Do not count all existing jobs as being retained if they were not at risk of being lost.**

The report requires a listing of all funded debentures (except debentures that have been accelerated) by one of two categories:

- A. Debentures Funded Two or More Years: The actual jobs (as reported by the borrower on the 2 year anniversary of the funding of the debenture) created and/or retained. The CDC must provide totals for this section (see Exhibit 1). (Include prepaid debentures but NOT debentures that have been accelerated.)

- B. Debentures Funded Less Than 2 Years: The estimated (as indicated on the loan application) created and/or retained. The CDC must provide totals for this section (see Exhibit 1). (Include prepaid debentures but NOT debentures that have been accelerated.)
- C. A summary section that calculates the CDC Job Creation and Retention Average (see Exhibit 1) as well as the \$ of Debenture/job.

TAB 5. Report on Compensation

Provide detailed information on total compensation (including salary, bonuses and expenses) paid within the CDC's most recent tax year for current and former officers and directors, and for current former employees and independent contractors with total compensation of more than \$100,000 during that period.

TAB 6. Certification of Board of Directors

Provide written annual certification by each Board member that he or she has read and understands the requirements set forth in 13 CFR 120.823.

PLEASE NOTE: The estimated burden for completing this form is 28 hours. You are not required to respond to any collection of information unless it displays a currently valid OMB approval number. Comments or questions on the burden estimate should be sent to US Small Business Administration, Chief, AIB, 409 3rd St., SW, Washington, DC 20416 and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Room 10202, Washington, DC 20503.
PLEASE DO NOT SEND FORMS TO THESE ADDRESSES.