



## Certified Development Company (CDC) Annual Report Guide

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 these regulations, SOP 50 10, and the instructions and attachments set forth in this guide.

CDCs may include, along with the Annual Report, a request for renewal of their Accredited Lender Program (ALP) or Premier Certified Lender Program (PCLP) status (if applicable). If the CDC chooses to include a renewal request in its Annual Report, the CDC must clearly indicate in its Annual Report that a renewal request is included. Any status renewal request submitted along with a CDC's Annual Report must meet SBA's Loan Program Requirements for the status request. CDCs are reminded to refer to ALP/PCLP guidance in SOP 50 10 when preparing their renewal requests. OCRM staff, when reviewing either the Annual Report or the status renewal request, may ask for updated information as needed to complete the review. Initial requests for Priority Status, ALP status, PCLP authority, a Local Economic Area (LEA) Expansion, or a Multi-state Expansion should not be included in the Annual Report and must be sent separately to the Office of Financial Assistance at [504Requests@sba.gov](mailto:504Requests@sba.gov).

Submission Requirements: CDCs are requested to submit the Annual Reports to their lead District Office electronically via email with a copy to OCRM at [CDCAnnualReports@sba.gov](mailto:CDCAnnualReports@sba.gov). (CDCs submitting hard copies of their Annual Report do not need to provide a copy to [CDCAnnualReports@sba.gov](mailto:CDCAnnualReports@sba.gov).) CDCs should note that the size limitation on SBA email boxes is 10MB. If the electronic file is larger than 10MB, you may need to separate the electronic file into multiple attachments.

In order to ensure uniform and comparable data by all CDCs, the Report has been designed to standardize reporting requirements. CDCs should report on every item within each Tab of the Annual Report Guide (items or Tabs without information being reported should state "N/A"). Both electronic and hard-copy submissions should be organized with tabs that correspond with the tabs indicated in this guide. CDCs that choose to submit hard copies of their Annual Report must use only 8.5 by 11-inch paper and must provide their Annual Report, **plus one copy of the Report** to their lead District Office. The District Office will forward the Annual Report to OCRM and retain the copy of the Report for their records. The CDC's lead District Office can be found at [www.SBA.gov](http://www.SBA.gov).

The Annual Report, whether submitted electronically or as a hard copy, must include all of the required documents, signatures and attachments and comply with the instructions set forth in this Annual Report guide.

Timing: The Annual Report must be filed with the CDC's lead SBA District Office within 180 calendar days after the end of the CDC's fiscal year; although CDCs are requested to submit their Annual Reports sooner if possible. 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.

**Incomplete or unacceptable reports will be returned to the CDC and the CDC will be considered to have not fulfilled the requirement. If a CDC does not submit its Annual Report in a timely manner, this will be reported to OCRM for potential supervisory or enforcement actions.**

## 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 summary of CDC's current activity in SBA programs, other than the 504 loan program (e.g., Lender Service Provider for 7(a) packaging, Microloans, Community Advantage, etc.) If none, so state.
- C. A summary of CDC's current activity in non-SBA programs (such as UDAGs, HUD 108 CDBG, EDA, USDA, etc.). The summary must include the following by program and by state:
  - 1. The number of years the CDC has participated in the program;
  - 2. Historical loan activity;
  - 3. The number of loans approved during the fiscal year being reported; and
  - 4. The amount of revenue generated from each program during the fiscal year being reported.

If none, so state.

- D. A summary of CDC's activity in non-lending programs, including grants and other non-lending economic development efforts. The summary must include the following by program/activity and by state:
  - 1. The number of years the CDC has participated in the program/activity; and
  - 2. A description of the relevance of the program for local economic development.

If none, so state.

- E. A detailed description of the CDC's economic development strategy that outlines the efforts the CDC will undertake during the upcoming fiscal year to serve its area of operations. This includes projections for 504 loan activity **and** investments in Other Economic Development. (For Multi-State CDCs, these comments must be provided for each state.)

Include evidence of CDC Board of Directors' approval of the investment plan for the upcoming fiscal year and the basis for determining the type/amount of investment.

#### *Guidance on Reporting on non-lending investments in economic development activities:*

CDCs are required to report on investment in economic development per 13 CFR § 120.830(a)(4). CDCs must document non-lending investments in economic development activities by instituting a results-based reporting requirement from the recipient entity. For non-lending investments in economic development activities, the CDC should track and report on:

- 1. The initial investment amount for each program;
- 2. The amount of investment made during the fiscal year being reported;
- 3. The expected results of the investment in the specific program(s) (at the time of investment); and

4. The actual results of the investment in non-lending other economic development activities.

CDC must report on the previous year's investment and results, the current year's investment and expected results and the upcoming year's budget estimate. CDCs should use a results-based assessment when considering the investment and/or reinvestment year after year. This results-based reporting should be a requirement of the entity and/or program receiving the investment. All of this information together should be reviewed and approved by the CDC's Board of Directors.

## TAB 2. Operating Report

- A. Directors/Committees (as of the end of the CDC's fiscal year being reported):
  1. Board of Directors. Organize as follows:
    - a) Director's name;
    - b) Area of each director's expertise;
    - c) The director's current occupation, business address, and business phone number;
    - d) Each director's residence (City, State); and
    - e) If an officer of the board, state office.
  2. Identification of "Close Relatives": CDCs must identify any relationships between Directors and/or CDC employees that are defined as "close relatives" per 13 CFR §120.10.

(Note: Changes from the previous CDC fiscal year must be noted with an asterisk. If a new Director has joined the Board, the CDC must provide the date(s) that SBA Form 1081 and resume(s) were submitted to SBA.)

3. CDC Board Meetings – List the following information:
  - a) Dates of the CDC Board meetings during the fiscal year being reported;
  - b) Names of the Board members present at each meeting, including identifying which of the required areas of expertise the Board member represents;
  - c) For the present Board Members with experience in Commercial Lending, list each member's name, title, lending institution, and number of years of experience. Specify if one is the CDC manager;
  - d) A listing of the borrower names (to include the loan numbers, if available) of any 504 loans approved during the meeting; and
  - e) A complete collection of the minutes for each meeting during the reporting period.  
The meeting minutes must identify any recusals from voting by any Director due to potential or actual conflicts of interest.

(Note: Board minutes may be accepted instead of a full listing of items 3.a) through 3.d) above **ONLY IF** the minutes are signed and provide all of the required information listed above.)

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

5. Executive Committee Meetings

If, in addition to the Board meetings, the CDC has Executive Committee meetings, the CDC must provide the same information listed under CDC Board Meetings (items 3.a) through 3.e) above) for Executive Committee meetings, including a complete collection of the Executive Committee minutes for each Executive Committee meeting during the reporting period, which must identify any recusals from voting by any Committee members due to potential or actual conflicts of interest.

6. Loan Committee(s)

If the CDC has a Loan Committee which is separate from the Board of Directors, provide the following information for each Loan Committee member:

- a) Committee member's name;
- b) Area of each Committee member's expertise;
- c) The Committee member's current occupation, business address, and business phone number; and
- d) Each Committee member's residence (City, State).

If Board of Directors serves as the CDC's Loan Committee, a separate listing is not required. CDC may denote Loan Committee members clearly on the Board listing.

Multi-State CDCs must list the information in items 6.a) through 6.d) for each state in which the CDC is authorized to operate.

7. Loan Committee Meetings

If, in addition to the Board meetings, the CDC has Loan Committee meetings, CDC must provide:

- a) The same information listed under CDC Board Meetings (items 3.a) through 3.e) above) must be supplied for Loan Committee Meetings, including a complete collection of the Loan Committee minutes for each Loan Committee meeting during the reporting period, which must identify any recusals from voting by any Committee members due to potential or actual conflicts of interest; and
- b) A listing of each loan approved by the Loan Committee between \$1,000,000 to \$2,000,000 and the date that the Board or Executive Committee ratified the action of the Loan Committee.

Multi-State CDCs must list the information in items 7.a) and 7.b) for each state in which the CDC is authorized to operate.

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

1. Organizational chart which reflects the structure of the CDC and the relationship amongst personnel and departments;
2. A listing of all CDC staff by name, position title, function, and years of 504 loan experience (including, but limited to: marketing, screening, packaging, processing, closing, servicing, liquidation, management);
  - a) 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

*For example:*

- Jane Doe, Loan Officer, 15 years of 504 experience
  - Screening, packaging and processing (75%)
  - Servicing (25%)
- b) 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

*For example:*

- John Doe, CDC Manager/President of ABC Economic Development Corp., 15 years of 504 experience
  - ABC Economic Development Corp. activities (50%)
  - CDC-related activities (50%)
- c) If applicable, any CDC office the staff person holds.

C. Contracts – CDC must provide:

- a) A copy of all contracts for management and/or staff in place during the reporting period. If a contract included in the Annual Report is no longer in place at the time of submission, please indicate the date of contract termination.
- b) A copy of the signed letter from the Director of the Office of Financial Assistance (D/FA) evidencing OFA’s review and pre-approval of each contract(s). *Contracts for CDC’s accountant, independent loan reviewer, IT services, or attorney(s) are not required to be submitted for review, except for legal services in connection with loan liquidation or litigation.*

**\*\*NOTE – Submission of contracts in the CDC’s Annual Report DOES NOT constitute submission to OFA for review/pre-approval. Contracts must be submitted separately to the OFA 504 Loan Program Branch at [504Requests@sba.gov](mailto:504Requests@sba.gov) to request review/pre-approval prior to the start of each contract term, as required by SOP 50 10.\*\***

- c) If CDC Management is provided through contract, a copy of the signed letter from the D/FA which grants a waiver of the requirement that the CDC have at least one salaried professional employee that is employed directly (not a contractor or associate of the contractor) full-time to manage the CDC, as allowed by 13 CFR § 120.824(a), (“Management Waiver”);
- d) A copy of the Board’s resolution approving the contract in place during the reporting period;
- e) A copy of the Board’s written explanation for why it believes that it is in the best interest of the CDC to contract for a 504 management, marketing, packaging, processing, closing or liquidation function. Per 13 CFR 120.824(e), the Board’s explanation must demonstrate to SBA that:
  - i. The compensation under the contract 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.

D. Affiliations – For affiliations with all other entities, list: the name of the affiliated entity, nature of affiliation, effective date of the affiliation, and identify the provision under 13 CFR 120.820 that permits the affiliation. If no affiliations exist, indicate “none.”

- E. Legal - Provide a statement signed by the CDC's Board Secretary or Legal Counsel that certifies to the following:
- a) That all changes to the Articles of Incorporation or By-Laws made during the reporting period have been submitted to the CDC's local SBA District Office with the date of the change(s), or a signed certification that no changes have been made.
  - b) That the CDC's Board of Directors and any Loan and Executive Committees are in compliance with SBA regulations governing CDCs; and
  - c) If the CDC is involved in any legal proceeding as a plaintiff or defendant, that SBA has been adequately notified, including: a summary description of any legal proceedings; the date that SBA was notified; and the name of the individual and the SBA office to which the notification was sent, or, a signed certification that the CDC is not involved in any legal proceedings.

F. Independent Loan Review Package

CDCs are required by 13 CFR § 120.826 and SOP 50 10 to establish a Board-approved internal control policy, which includes providing for a periodic loan review function to be performed at least annually by a person that is not directly or indirectly responsible for the functions being reviewed, such as loan making or loan servicing.

This periodic review can be performed by outside contractors. CDCs should include an Independent Loan Review Package in the Annual Report which evidences, at a minimum:

1. A copy of the Engagement Letter from the Reviewer (if performed by an outside contractor);
2. A copy of the completed Independent Loan Review Report which follows the content and reporting guidelines set forth in the Independent Loan Review Guide, and includes:
  - a. A description of the individuals conducting the report, demonstrating their independence from the function they are responsible to review (if conducted internally);
  - b. The loan selection methodology or criteria used for the sample; and
  - c. A copy of the checklist that was used in the loan review; and
3. Evidence that the Board of Directors acknowledged receipt of the results of the Independent Loan Review Report and approved the CDC Management's plan to remedy the findings from the loan review.

TAB 3. Financial Report –

13 CFR § 120.830 contains the requirements for a CDC's annual Financial Report. **CDCs are responsible for reviewing this regulation to ensure compliance.** The following is 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; **AND**
  - The auditor's letter to management on internal control weaknesses.

- 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, as determined by 13 CFR § 121.103. For all audited or reviewed Financial Reports, refer to 13 CFR § 120.826(c) and (d) for CPA requirements.

If the CDC's management (through an SBA-approved management waiver) or staff is provided by an affiliate of the CDC, and/or if an affiliate subsidizes the CDC's operations, the CDC must also provide an explanation of the financial relationship of the affiliation and 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;
- B. Audited or reviewed statement of income (or receipts) and expenses (see below for additional details);
- C. Audited or reviewed statement of source and application of funds;
- D. Such footnotes as are necessary to an understanding of the financial statements;
- E. Evidence of CDC Board's acknowledgement of audited or reviewed financial statements and the auditor's letter on internal control weaknesses;
- F. Federal tax returns for the most recent year, including all schedules (ex. IRS Form 990, IRS Form 1120, Form 480.70); and
- G. 504- Related Income/Expenses

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

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

\* Identify what these miscellaneous items are.

- H. 159 Reporting – include:
- a. Copies of all Fee Disclosure Form and Compensation Agreements (SBA Form 159(504)) for all of the CDC’s 504 loans that closed during the fiscal year being reported.
- I. Compliance with insurance requirement. Include copy of full policy binders for D&O and E&O insurance.

**TAB 4. Analysis of 504 Employment Impact**

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

1. 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 collect this information in writing from the borrower on a document signed and dated by an authorized employee of the borrower.
  - The CDC must provide totals for this section (see Exhibit 1). (Include prepaid debentures but NOT debentures that have been accelerated.)
2. 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.)

The report must also contain a summary section that calculates the CDC Job Creation and Retention Average (see Exhibit 1 for format template) as well as the \$ of Debenture/job.

*The attached Excel Sheet is a format template for submission to SBA of the CDC Analysis of 504 Economic Impact. CDCs may opt to use their own Jobs Reporting worksheet **ONLY IF** the CDC’s worksheet includes the **SAME** data elements as the Excel template.*

The CDC must have a job opportunity average of 1 Job Opportunity created or retained for every:

- a) \$65,000; or
- b) \$75,000 for Projects located in Special Geographic Areas (Alaska, Hawaii, State-designated enterprise zones, empowerment zones, enterprise communities, and labor surplus areas).
  - A CDC may choose to separate Projects located in Special Geographic Areas from the remainder of its portfolio for the purpose of calculating the averages.

The CDC’s report must include a listing of all funded debentures for manufacturing businesses (except debentures that have been accelerated) and the Job Opportunities created or retained in the same format as the non-manufacturing loans described above. Loans to Small Manufacturers have a job opportunity average of 1 Job Opportunity created or retained for every \$100,000. The report must show the dollar per job average of the manufacturing loans. (Note – these job opportunities need not be included in the CDC’s overall Job Creation and Retention Average reported in the summary section of the report.)



Definitions:

Job Opportunity means a full time (or equivalent\*) permanent or contracted job created within two years of receipt of 504 funds, or retained in the community because of a 504 loan.

Job Created means a full-time equivalent (8 productive hours per day/40 productive hours per week) permanent or contracted employment created within 2 years of financing.

\*Full-time equivalent is defined by the Internal Revenue Service (IRS) as “for a calendar month, an employee employed on average at least 30 hours of service per week, or 130 hours of service per month.”

The Government Accountability Office’s (GAO) methodology for calculating full-time equivalent employees demonstrates how to convert part-time or temporary jobs into “full-time equivalent” (FTE) jobs:

*Cumulative Hours Worked / Cumulative Hours Worked in a Full-Time Schedule = FTE*

For example: Assume that a full-time schedule for the 52-week work-year is 2,080 hours/year. An employee that works part-time 15 hours per week would qualify as 0.375 FTEs.

$(15 \text{ hours} \times 52 \text{ weeks}) / 2080 \text{ hours} = 0.375$

Jobs Retained means jobs that otherwise **would 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.** CDC must be able to reasonably show that jobs would be lost to the community if the project was not done.

**TAB 5. Report on Compensation**

1. Provide a copy of the CDC’s Executive Compensation policy;
2. Include documentation of the CDC Board of Directors’ basis for determining executive compensation;
3. Provide evidence of CDC Board of Directors’ review and approval of current executive compensation package;
4. Provide detailed information on all compensation (including salary, bonuses and expenses) paid within the CDC’s most recent tax year for current and former officers, directors, and key employees. (Compensation must be reported for all current and former officers, directors, and key employees even in cases where compensation is less than \$100,000.) Include details of deferred compensation packages where applicable; and
5. Provide detailed information on all compensation (including salary, bonuses and expenses) paid within the CDC’s most recent tax year for current and former employees and independent contractors with total compensation of \$100,000 or more during that period. Include details of deferred compensation packages where applicable.

Note – Report on Compensation is required. Submission of the IRS Form 990 in Tab 3 may not serve as a substitute for the above listed information.

**TAB 6. Certification of Board of Directors**

Each Board member must certify annually that he or she “has read and understands the requirements set forth in 13 CFR 120.823”. Certifications must be individually signed and dated by each Board member.

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, Director, Records Management Division, 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.**