

account classification prescribed by SBA. The system has been prescribed to insure that standard books of account are maintained by Licensees and that uniform accounting policies are followed.

ii. Books of account for a management consulting or other subsidiary shall be maintained using accounts compatible with those used by the Licensee.

#### *C. Annual Financial Report (SBA Form 468)*

i. The Small Business Administration, under authority granted by the Small Business Investment Act of 1958, as amended (the Act), requires each Licensee to submit an Annual Financial Report as of the close of its fiscal year (see § 107.1002(e)). The Annual Financial Report consists of audited financial statements and supplementary schedules prepared on SBA Form 468, the Independent Public Accountant's report, the notes accompanying the financial statements, and the required certifications.

ii. Preparation of the Annual Financial Report is the responsibility of the Licensee. The Independent Public Accountant's responsibility is to perform an audit and to express an opinion on the financial statements and supplementary schedules based on the audit.

#### *D. Filing of Annual Financial Report*

i. The Annual Financial Report on SBA Form 468 shall be submitted to SBA by the Licensee no later than the last day of the third month following the end of the Licensee's fiscal year.

The Licensee shall include in its filing a copy of any transmittal letter, special report, or other communication furnished by its auditor.

ii. For all fiscal years ending on or after June 30, 1994, SBA Form 468 shall be submitted electronically, in accordance with § 107.101(h). All Licensees must use the electronic reporting software provided by SBA for this purpose. A complete filing of Form 468 consists of the following:

- (1) The electronic reporting data diskette;
- (2) Two printed copies of the financial statements and supplementary schedules;
- (3) The signed management certifications which appear on the last page of Form 468 (two copies, one with original signatures);
- (4) The IPA's report (two copies, one with original signature); and
- (5) The notes to the financial statements (two copies).

#### *E. Portfolio Financing Report (SBA Form 1031)*

For each financing of a small concern, Licensees shall submit a Portfolio Financing Report on SBA Form 1031 within 30 days of the closing date of the financing. Such reports shall be prepared using software provided by SBA. Licensees may submit a printout of the form to SBA or transmit it electronically. The report, which is used for program evaluation purposes, provides summary information concerning the amount and terms of the financing, the financial condition of the small concern and the intended use of proceeds, as well as information which will be used to assess the economic impact of the financing.

#### *F. Interim Reports*

SBA may require Licensees to submit interim reports containing unaudited financial and/or management information, pursuant to § 107.1002(g). The form and content of such reports may be standardized or determined by SBA on a case-by-case basis. Interim reports shall be submitted in such manner and at such time as SBA shall direct.

### **III. Selection and Qualification of the Auditor**

#### *A. Selection of the Auditor*

i. The Licensee's Board of Directors or General Partner is responsible for selecting the Independent Public Accountant (IPA). Within 30 days of its engagement by the Licensee, the Independent Public Accountant shall file with the SBA a completed IPA Certification (CO Form 112) certifying as to its qualifications and independence. The IPA shall be deemed approved unless the Licensee is notified to the contrary by SBA within 90 days after receipt of the IPA Certification.

ii. Submittal of the IPA Certification is required only upon the initial engagement of the IPA. An IPA engaged to audit an SBIC on a recurring basis does not need to submit a new Certification each year.

iii. The Licensee shall notify the SBA in writing of a change in accountants and shall explain the reason for the change.

#### *B. Qualification of the Auditor*

Any Certified Public Accountant or Public Accountant, licensed by a regulatory authority of a State or other political subdivision of the United States, may be considered qualified to render an opinion on behalf of a Licensee, provided the following conditions are met: (1) The accountant is independent with respect to the Licensee, and (2) the accountant is duly authorized to practice and is in good standing under the laws of the State or other comparable authority in which so authorized.

#### *C. Independence*

i. Independent Public Accountants approved by SBA are to follow the Code of Professional Conduct adopted by the AICPA. In considering questions which may arise concerning the independence of an accountant with respect to a Licensee, the SBA will give appropriate consideration to all relevant circumstances, including evidence bearing on relationships between the accountant and such Licensee or any of its affiliates.

ii. Independence will be considered to be impaired by circumstances including, but not limited to, the following:

1. During the professional engagement, or at the time of expressing an opinion, the accountant or his/her firm:

- a. Had or was committed to acquire any direct or indirect financial interest in the Licensee; or
- b. Had any joint closely held business investment with the Licensee or any of its officers, directors or principal stockholders, or any general or limited partner, which was material in relation to the net worth of the accountant or his/her firm; or

c. Had any loan to or from the Licensee or any of its officers, directors or principal stockholders, or any general or limited partner.

2. During the period covered by the financial statements during the professional engagement, or at the time of expressing an opinion, the accountant or his/her firm:

- a. Was connected with the Licensee as a promoter, underwriter, or voting trustee, a director of officer or in any capacity equivalent to that of a member of management or of an employee; or
- b. Was a trustee of any trust or executor or administrator of any estate is such trust or estate had a direct or material indirect financial interest in the Licensee; or was a trustee for any pension or profit-sharing trust of the Licensee; or
- c. Rendered bookkeeping services to the Licensee; *Provided however*, that SBA may approve the rendering of bookkeeping services by independent accountants on a case by case basis.
- iii. Independent public accountants who audit Licensees which elect to qualify as Regulated Investment Companies should become familiar with Section 600 ("Matters Relating to Independent Accountants") of the SEC's "Codification of Financial Reporting Policies."

### **IV. Annual Audit**

#### *A. Generally Accepted Auditing Standards*

The IPA shall perform an audit of the Licensee's financial statements in accordance with generally accepted auditing standards (GAAS) of the AICPA. It is the responsibility of accountants to be informed of any changes in GAAS as they occur. AICPA recommendations for the application of GAAS to audits of the financial statements of investment companies are presented in the publication, "Audits of Investment Companies", which is updated periodically. Although this publication deals primarily with companies investing in marketable securities, many of its recommended audit procedures are applicable to SBICs.

#### *B. Independent Auditor's Report*

i. The Independent Auditor's Report shall conform to current AICPA recommendations regarding the application of generally accepted auditing standards to reports on audited financial statements of investment companies. As of the publication date of these regulations, such recommendations are presented in chapter 9 of the AICPA publication, "Audits of Investment Companies." It is the responsibility of accountants to be aware of any changes in generally accepted auditing standards which may affect reporting requirements.

ii. The opinion expressed in the Independent Auditors' Report must refer specifically to the financial statements as they appear in SBA Form 468. An opinion expressed on financial statements prepared for general purposes, or for any specific purpose other than inclusion in SBA Form 468, is not acceptable. The financial statements may be listed by name in the auditor's report, or listed separately and referred to in the report (for example, the report could refer to the financial statements