



Licensee Reporting of Financing to Small Businesses

INSTRUCTIONS FOR PREPARATION OF

**PORTFOLIO FINANCING REPORT
(SBA Form 1031)**

**PORTFOLIO FINANCING REPORT CERTIFICATION
(SBA Form 1031A)**

September 2001

**Investment Division
U.S. Small Business Administration**

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A. INTRODUCTION

All Small Business Investment Company (SBIC) Program Licensees must submit a Form 1031 (Portfolio Financing Report) within 30 days of each new financing of a small business concern. In addition, the Portfolio Financing Report Certification (Form 1031A) is required on an annual or semiannual basis. These instructions cover the preparation and submission of both forms.

The Investment Division revised the electronic reporting software in September 2001. The new version number is 1.2. These instructions are based on the revised software. An SBIC program Electronic Reporting Manual is also available. The Reporting Manual provides instructions for downloading and installing the software, as well as instructions for using the software to complete SBA Forms 468, 1031 and 1031A.

The reporting software and manual can be downloaded from the SBIC Electronic Reporting Web page at <http://www.sba.gov/INV/extra>. When you enter this Web page, you will be asked for a user name and password. Enter “inv” for the user name and “software” for the password (do not include the quotation marks). You will see two different download buttons, one for partnerships and one for corporations. You will also see separate download icons for the instructions, but if you download the software, the instructions will be included automatically.

If you are not able to download the software, contact Antoinette Shingler at 202-205-6517 for a copy of the software on CD-ROM. Please specify if you want the partnership or corporate version of the software.

Licensees must file the Form 1031 with the Investment Division using electronic mail. The email address for filing the Form 1031 is sbic@sba.gov. The Investment Division will provide the Licensee with a confirmation that it has received the electronic filing by sending an email confirmation to the confirmation email address each Licensee should have on file with the Investment Division. The confirmation email will indicate the date and time the filing was received by the Investment Division. The confirmation email will be transmitted to the Licensee within three business days following receipt of each electronic filing. Licensees must retain copies of the email confirmations in their files. SBIC Program examiners will check for Form 1031 confirmations as part of the examination process.

If a Licensee transmits a Form 1031 that does not have a valid NAICS Code or is missing the date the

small business was established, or does not have the percentage of small business owned by veterans field the Licensee will not receive a confirmation. Instead, the Licensee will receive an email message stating the filing is deficient and cannot be processed.

Because of the adoption of electronic filing, individual Form 1031s no longer include a certification signed by an official of the Licensee. Instead, Licensees must use SBA Form 1031A (the *Portfolio Financing Report Certification*) to provide SBA with verification of the completeness and accuracy of all Form 1031 filings within a certain time period. The electronic reporting software enables Licensees to print a Form 1031A. Form 1031A lists all SBA-confirmed filings of Form 1031 within a specified time period and includes a certification stating that the list is complete and that the information contained in each filing is complete and correct. The Form 1031A must be signed by an authorized official of the Licensee (normally an officer or general partner) and mailed to the Investment Division. A Licensee with leverage or a leverage commitment must file the Form 1031A semi-annually: (i) for the first half of its fiscal year with its semi-annual valuation report, and (ii) for the second half of its fiscal year with its year-end Form 468 (Annual Financial Report). A Licensee without leverage or a leverage commitment must file the Form 1031A annually with its year-end Form 468.

B. INSTRUCTIONS FOR PREPARATION OF THE PORTFOLIO FINANCING REPORT (SBA Form 1031)

1. WHEN TO SUBMIT A FORM 1031

- a. Transmit a Form 1031 to SBA within 30 days of each new financing of a small business concern.
- b. Transmit each Form 1031 only once, unless SBA directs otherwise.
- c. If the financing agreement calls for multiple disbursements to the small business, file one Form 1031 covering the entire amount of the planned financing. **EXCEPTION:** If any disbursements under the financing agreement are contingent upon the small business meeting specified conditions (such as benchmarks or performance hurdles, but **NOT** including compliance with routine debt covenants), prepare a separate Form 1031 for each such disbursement when it is made, treating it as if it were a separate financing. Do not include the amount of any such contingent financing in the initial Form 1031 filing.
- d. If two or more Licensees participate in a financing, each must file a separate Form 1031 for its individual share of the financing.
- e.) After transmitting a Form 1031, a Licensee will receive an email confirmation from the Investment Division within three working days. If a Licensee does not receive a confirmation, the Licensee should send an email inquiring about the confirmation to sbic@sba.gov.

If a Licensee transmits a Form 1031 that does not have a valid NAICS Code or is missing the date the small business was established, or does not have the percentage of small business owned by veterans field the Licensee will not receive a confirmation. Instead, the Licensee will receive an email message stating the filing is deficient and cannot be processed.

2. DATA ENTRY

- a. When using the Windows-based electronic reporting software, choosing to create a Form 1031 displays a data entry form for inputting the 1031 information. While the data entry form does not exactly mirror the printed 1031, you can view the 1031 as it would appear when printed. To complete the Form 1031, use your mouse to point-and-click to the required fields. For complete instructions on using the new electronic reporting software, refer to the SBIC Program Electronic Reporting Manual.
- b. If a mistake occurs during data entry (e.g., attempting to enter a negative value in a field that will not accept negative values), the software will display an error message with instructions for correcting the discrepancy.
- c. Execute the following steps to input a new Form 1031 using the software. These steps assume that the software has already been downloaded and installed on your computer (refer to the Electronic Reporting Manual if this is not the case).
 - i. Open the electronic reporting software (Section D of the Electronic Reporting Manual discusses opening the software). The reporting Main Menu will be displayed.
 - ii. Click the third button on the reporting Main Menu titled "Other Forms". The Other Forms Submenu will be displayed.
 - iii. Click the button next to the phrase "Create/Edit a Form 1031". A data entry form for the 1031 is then displayed. If a 1031 record was previously entered, the software will display the record when opened. To add a new record, click "Add Record". The data entry form is divided into sections organized under three different headings or "tabs": Small Business Data, Prefinancing Information, and Financing Information.
 - iv. Enter data in the proper fields. To enter data, click or use the {Tab} key to move through the various fields in each of the three tabs. Each 1031 must be completed using all three tabs. Line-by-line instructions for entering data are discussed below. Additional information on using the new reporting software is provided in the Electronic Reporting Manual.
 - v. Each 1031 is automatically saved to the Form 1031 database. As a result, you do not have to take any additional steps to save a completed Form 1031.
 - vi. After completing a Form 1031 record, you can close the data entry form and exit the software. The following functions are also available: view a 1031, print a 1031, add/enter a new 1031, retrieve/edit a completed 1031, and delete a completed 1031. Each of these functions is discussed in the Electronic Reporting Manual.

3. LINE-BY-LINE INSTRUCTIONS

The line items in the Form 1031 are to be filled in as described below.

Licensee Identification

Name of Licensee: Enter the name of the Licensee providing financing to a small business.

License Number: Enter the eight-digit license number of the Licensee. When using the electronic reporting software, enter only the digits of the license number, the software provides the slash and hyphen.

PART A - Small Business Concern Data

1. *Name of Small Business:* Enter the name of the small business receiving the financing. If the small business is a proprietorship that does not have a separate business name, enter the name of the principal owner.
2. *Employer Identification Number:* Enter the employer identification number of the small business receiving the financing. An established small business should already have an identification number. A new business must obtain an identification number by filing Form SS-4 with the U.S. Director of Internal Revenue for the area in which the business is located. If the small business does not yet have an employer identification number, enter "applied for."
3. *Street Address:* Enter the street address where the small business is located.
4. *City:* Enter the city where the small business is located.
5. *State:* Enter/Select the two letter abbreviation for the state where the small business is located.
6. *ZIP Code:* Enter the five- or nine-digit ZIP Code where the small business is located.
7. *County:* Enter the county where the small business is located.
8. *Small Business FAX:* Enter the facsimile number of the small business.
9. *Small Business Contact:* Enter the name of the President or other senior official of the small business.
10. *Date Business Established:* Enter the month, day, and year the small business was established. If the small business receiving the financing is acquiring an existing business, enter the date that the business is acquired.
- 11.) *North America Industry Classification System (NAICS) Code:* Enter the six-digit or five-digit NAICS code of the primary industry in which the small business is engaged. If the small business is involved in more than one industry, enter the code for the industry in which the small business has committed the greatest amount of assets. The proper NAICS code can be found on the Web at www.census.gov/naics. NAICS codes can also be found in the North American Industry Classification System manual issued by the Executive Office of the President, Office of

Management and Budget.

If the NAICS code cannot be determined from the manual, enter “999999” in the NAICS Code field. This will activate and allow data entry into the Industry field. In the Industry field, type a brief statement describing the industry in which the small business is engaged.

In the *Industry* field, type a brief statement describing the industry in which the small business is engaged.

If the business being financed is a holding company (as permitted under 13 CFR 107.720(b)(2)), provide the SIC Code for the active small business that will receive the proceeds of the financing.

12. *Form of Business*: Enter/Select the small business' form of business organization (corporation, partnership, proprietorship, or limited liability company).
13. *Percentage of Small Business Owned by Minorities*: Enter the appropriate ownership percentage (if any) for the listed minority categories. Include only individual owners, not institutional investors. Select only one category for any given owner. The total of all categories for line item 13 should not exceed 100%.

The category Native American includes individuals with American Indian, Eskimo, Aleut, or Native Hawaiian origins.

The category Asian Pacific American includes individuals with origins from Burma, Thailand, Malaysia, Indonesia, Singapore, Brunei, Japan, China, Taiwan, Laos, Cambodia, Vietnam, Korea, The Philippines, Guam, Samoa, Macao, Hong Kong, Fiji, Tonga, Kiribati, Tuvalu, and Nauru.

The category Subcontinent Asian American includes individuals with origins from India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands or Nepal.

14. *Percentage of Small Business Owned by Women*: Enter the appropriate ownership percentage (if any) for women owners. Include only individual owners, not institutional investors.
- 14a.) *Percentage of Small Business Owned by Veterans*: Enter the appropriate ownership percentage (if any) to owners who are veterans of the United States Armed Forces. Include only individual owners, not institutional investors.

PART B - Small Business Concern Prefinancing Information

The prefinancing information section of the Form 1031 is based on information from the small business' last fiscal year **before** receiving financing from the Licensee. The data from previous financial statements can be New Information, information that was Previously Submitted, information from an Acquired Business, or information from a New Business. When using the electronic reporting software, enter/select either New Information, Previously Submitted, Acquired Business, or New Business.

If the business being financed is a holding company (as permitted under 13 CFR 107.720(b)(2)), provide the prefinancing information for the active small business that will receive the proceeds of the financing.

New Information

When using the electronic reporting software to enter prefinancing information for a small business for the first time, select the phrase "New Information" from the prefinancing status field's drop-down menu. The software then allows data entry into all prefinancing information fields.

Previously Submitted

If a Licensee has reported the prefinancing information on a particular small business previously on a Form 1031, it does not need to furnish the prefinancing information again. The Licensee need only note that the information was previously provided. When using the electronic reporting software, select the phrase "Previously Submitted" from the prefinancing status field's drop-down menu. The software then skips all prefinancing information fields.

New Business

If the small business is a recent start-up and has not completed a fiscal year, enter "New Business" and only enter the prefinancing information that is available. When using the electronic reporting software, select the phrase "New Business" from the prefinancing status field's drop-down menu. The software then allows data entry into all prefinancing information fields, but the Licensee should only place data into the fields for which it has data.

Acquired Business

If the proceeds of the financing are to be used for the acquisition of an existing business by a company formed for that purpose (or a previously existing "shell" company or other company not engaged in active operations), enter "Acquired Business" and enter any financial information that is available for the acquired business. When using the electronic reporting software, select the phrase "Acquired Business" from the prefinancing status field's drop-down menu. The software then allows data entry into all prefinancing information fields.

15. *Fiscal Year End Immediately Prior to Date of Financing:* Enter the date of the small business' latest fiscal year end immediately before the current financing by the Licensee.
16. *Gross Revenue for Prior Fiscal Year:* Enter the whole dollar amount of the small business' gross revenues for the fiscal year before the current financing by the Licensee.
17. *After-Tax Profit (Loss) for Prior Fiscal Year:* Enter the whole dollar amount of the small business' net profit after taxes for the fiscal year before the current financing by the Licensee. When using the electronic reporting software, enter losses with a minus sign preceding the amount. Disregard any losses carried forward from previous years in determining profit or loss for latest fiscal year.

18. *Income Taxes for Prior Fiscal Year:* Enter the whole dollar amount of federal, state, and local income taxes paid by the small business for the fiscal year before the current financing by the Licensee. These income taxes should not include income tax withholdings for employees, property taxes, or the employer's share of social security and unemployment taxes.
19. *Employee Payroll Tax Withholdings for Prior Fiscal Year:* Enter the whole dollar amount of total employee payroll withholdings for federal income taxes and combined state and local income taxes for the fiscal year before the current financing by the Licensee. Do not include social security taxes withheld.
20. *Total Assets:* Enter the whole dollar amount of all assets, net of valuation reserves, held by the small business at the close of the fiscal year before the current financing by the Licensee.
21. *Net Worth (Deficit):* Enter the whole dollar amount of the net worth of the small business at the close of the fiscal year before the current financing by the Licensee. When using the electronic reporting software, enter a net worth deficit with a minus sign preceding the amount.
22. *Retained Earnings (Deficit):* Enter the whole dollar amount of the retained earnings of the small business at the close of the fiscal year before the current financing by the Licensee. When using the electronic reporting software, enter a retained earnings deficit with a minus sign preceding the amount.
23. *Number of Employees:* Enter the small business' total number of full-time equivalent employees as of the close of the fiscal year before the financing by Licensee.

PART C - Financing Information

24. *Date of Financing:* Enter the date that the small business and the Licensee sign a formal contract or agreement of financing, or the effective date of such a contract or agreement if the effective date is different from the date the contract was signed. Use this date on any additional Form 1031s filed when additional funds are disbursed under the same financing agreement as a result of the small business meeting specified benchmarks or performance hurdles.
25. *Date of Disbursement:* Enter the date that the Licensee makes or schedules the financing disbursement. The date of disbursement may differ from the date of financing. The Form 1031 may be filed prior to disbursement. If there are multiple disbursements made under a single financing, enter the date or scheduled date of the first disbursement. Licensees do not have to transmit Form 1031s for subsequent disbursements of the same financing.
26. *Purpose of Financing:* Enter/Select the use(s) of the financing proceeds. Select from the ten listed categories. Multiple selections are to be ranked by importance to the small business (enter most important first). Enter up to three selections without duplicating a selection.
 1. Working Capital or Inventory Purchase
 2. Plant Modernization or Leasehold Improvement
 3. Acquisition of All or Part of an Existing Business
 4. Consolidation of Obligations or Non-SBIC Refunding
 5. New Building or Plant Construction

6. Acquisition of Machinery and Equipment
7. Land Acquisition / Dwelling Construction on Existing Land
8. Marketing Activities
9. Research and Development
10. Other

27. *Is this the First Financing of the Small Business?:* Enter/Select "Yes" if the financing reported on this Portfolio Financing Report is the first financing made by the Licensee to this particular small business. Enter/Select "No" if there has been a previous financing by the Licensee to this particular small business.

28. Financing Instruments and Applicable Amounts

Loan Only

For "Loan Only", enter the whole dollar amount of a straight loan financing (no equity features) committed by the Licensee to the small business. Include only amounts that are not subject to any benchmark or performance hurdle conditions. When additional disbursements are conditional, file a separate Form 1031 for each conditional amount when funds are actually disbursed.

If the financing involves other participants, enter only the Licensee's individual share of the financing.

Enter the initial rate of interest applied to the loan in column labeled "Initial Interest Rate(s)".

NOTE: If you enter an amount as "Loan Only," the electronic reporting software will not allow you to enter an amount for either "Debt with Equity" or "Equity Only." If a financing consists of a loan and the purchase of an equity interest in a small business, report the loan portion under "Debt with Equity." For example, if the total amount of a financing is \$500,000 consisting of a \$400,000 5-year note and \$100,000 of preferred stock, report \$400,000 as "Debt with Equity" and \$100,000 as "Equity Only."

Debt with Equity Features

For "Debt with Equity Features", enter the dollar amount of financing by debt securities with equity features (such as conversion rights, stock purchase warrants, and stock purchase options), or debt securities accompanied by the direct purchase of an equity interest. Include only amounts that are not subject to any benchmark or performance hurdle conditions. When additional disbursements are conditional, file a separate Form 1031 for each conditional amount when funds are actually disbursed.

If the financing involves other participants, enter only the Licensee's individual share of the financing.

Enter the initial rate of interest applied to the debt portion in the column labeled "Initial Interest Rate(s)".

Enter the Licensee's percentage of ownership (if any) acquired as a result of the financing in column labeled "% Actual Ownership". Include only actual ownership, not potential ownership.

Equity Only

For "Equity Only", enter the whole dollar amount of straight equity financing committed by the Licensee to the small business. Include only amounts that are not subject to any benchmark or performance hurdle conditions. When additional disbursements are conditional, file a separate Form 1031 for each conditional amount when funds are actually disbursed.

If the financing involves other participants, enter only the Licensee's individual share of the financing.

Enter the Licensee's percentage of ownership acquired as a result of the financing in column labeled "% Actual Ownership". Include only actual ownership, not potential ownership.

Total Financing

The electronic reporting software calculates "Total Financing" by summing the amounts entered in the "Loan Only", "Debt with Equity Features", and "Equity Only" fields.

29. *Comments on Financing:* Enter any additional comments on the financing.

PART D - Transmission Verification

Transmission Date: Enter the date the Form 1031 is transmitted to SBA.

C. TRANSMITTING THE FORM 1031 TO SBA

The Form 1031 must be transmitted to the Investment Division by Internet electronic mail. Complete transmission instructions are provided in Section Q of the SBIC Program Electronic Reporting Manual.

D. INSTRUCTIONS FOR PREPARATION OF THE PORTFOLIO FINANCING REPORT CERTIFICATION (SBA Form 1031A)

Licensees must use the Portfolio Financing Report Certification (SBA Form 1031A) to verify the completeness and correctness of Form 1031s previously transmitted to SBA. Licensees with leverage or a leverage commitment are to file Form 1031A semi-annually with their semi-annual valuation report and with their year-end Form 468 (Annual Financial Report). Licensees without leverage or a leverage commitment are to file the Form 1031A annually with their Form 468.

The Form 1031A is to be prepared using the electronic reporting software. An authorized official of the Licensee (normally the Chief Financial Officer or General Partner) must verify the completeness and correctness of the Portfolio Financing Report Certification by signing his or her name in ink in the

signature space. The person who signs the Form 1031A must also enter his/her name and title and the date on which the report was signed in the spaces provided.

Licenseses must retain a copy of the signed Form 1031A in their files. SBIC Program examiners will check for Form 1031A as part of the examination process.

Execute the following steps to print a Form 1031A using the electronic reporting software.

1. Turn on your printer and make sure it is on line and ready to receive output.
2. Open the electronic reporting software (Section D of the Electronic Reporting Manual discusses opening the software).
3. Click the third button on the reporting Main Menu titled “Other Forms”. The Forms Submenu will be displayed.
4. Press the button next to the phrase “Print a Form 1031 Certification”. The software will then prompt you to provide a Start Period and End Period. These dates are used to determine which Form 1031s are included in the certification (by comparing the start and end dates with the Date of Financing given on the 1031). Once the dates are given, click “OK” and the software will print the Form 1031A. When printing is complete, you will return to the Forms Submenu.
5. Click “Close Form” to return to the Main Menu.