# Audit Report

OIG-08-011

Report on Community Development Financial Institutions Fund's Fiscal Years 2007 and 2006 Financial Statements

November 16, 2007

# Office of Inspector General

## Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 16, 2007

**MEMORANDUM FOR PETER DUGAS, ACTING DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND**

**FROM:** Michael Fitzgerald /s/
Director, Financial Audits

**SUBJECT:** Report on Community Development Financial Institutions Fund's Fiscal Years 2007 and 2006 Financial Statements

Attached are the Community Development Financial Institutions Fund (CDFI) financial statements for fiscal years 2007 and 2006, as required by the Government Corporation Control Act. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, was engaged to perform an audit of the financial statements of CDFI as of September 30, 2007 and 2006 and for the years then ended.

The following reports, prepared by KPMG LLP, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Controls; and
- Independent Auditors' Report on Compliance and Other Matters.

KPMG LLP issued a disclaimer of opinion on the financial statements as a result of a limitation on the scope of its work. Specifically, KPMG LLP was unable to obtain appropriate representations from CDFI management with respect to the financial statements as of and for the years ended September 30, 2007 and 2006, and could not determine the effect of the lack of such representations on CDFI's financial statements. As a result, the scope of KPMG LLP's work was not sufficient to enable them to express an opinion on CDFI's financial statements. KPMG LLP's Report on Internal Controls contained two significant deficiencies related to communications and team building and controls over awards monitoring, which were not considered material weaknesses. KPMG LLP's Report on Compliance and Other Matters noted no instances of reportable noncompliance with laws and regulations, however, the lack of representations from management was noted as an other matter.

In connection with the contract, we reviewed KPMG LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 14, 2007, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Donna Joseph, Audit Manager, Financial Audits at (202) 927-5784.

Attachment

# Community Development Financial Institutions Fund

# United States Department of the Treasury

# Performance and Accountability Report

# FY 2007

# Table of Contents



**Appendices**

## Message From The Director

I am pleased to present the U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund's Performance and Accountability Report for Fiscal Year 2007. As the former director testified before the U.S. Congress in March, U.S. Treasury Secretary Henry M. Paulson's top priority is keeping the American economy strong for our workers, our families, and our businesses. The CDFI Fund has a vital role in helping to fulfill this priority by encouraging and creating more opportunity in America's neediest communities.

Over the past year, CDFI Fund staff has been hard at work to further our mission of expanding the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and economically distressed communities in the United States. We would like to highlight just a few of our recent efforts that provide deliverable results to the communities that are in the greatest of need.

As part of our mission, the CDFI Fund supports organizations that are on the front lines of creating real solutions for those facing foreclosure in our nation's low-income communities. When making the 2007 CDFI Fund Program Award announcement of over $27 million in Chicago this September, Treasury Secretary Paulson summed it up best: “The President asked Treasury to focus on helping struggling homeowners keep their primary residence, and we will rely on the help of CDFI organizations like Neighborhood Housing Services of Chicago to reach borrowers who are likely to have trouble, and work with them to help them keep their homes." We provide community-based lenders with the resources to do even more for their communities -- such as more foreclosure prevention counseling and capital for market-rate loans to refinance mortgages and keep families in their homes.

We also are committed to helping those affected by Hurricane Katrina. In order to better understand the good work of our CDFIs in this area, the former director requested that the CDFI Fund's Community Development Advisory Board hold its annual meeting in New Orleans, Louisiana. This was the first time that the Advisory Board has met outside of Washington, D.C., and they saw first hand how the CDFI Fund's CDFI Programs are providing critically needed financial education and services to the Gulf Coast. And, through our New Markets Tax Credits Program, the CDFI Fund has awarded $1 billion in tax credit allocations focused exclusively on the rebuilding and reconstruction of the Gulf.

In closing, I again want to recognize and thank our dedicated CDFI Fund staff. They are passionate about the mission of this organization and ensure that every distressed community in the nation has the opportunity to benefit from our programs.

Peter Dugas

**Peter Dugas**
**Acting Director**

# Community Development Financial Institutions Fund

## Overview

The Community Development Financial Institutions (CDFI) Fund was created for the purpose of promoting economic and community development through investment in and assistance to community development financial institutions (CDFIs). The CDFI Fund's role in promoting community and economic development was expanded in FY 2001 when the Secretary of the Treasury delegated to the CDFI Fund the responsibility of administering the New Markets Tax Credit (NMTC) Program.

Since its creation in 1994, the CDFI Fund has awarded $864 million to CDFIs, community development organizations and financial institutions through the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Award (BEA) Program, and the Native Initiatives. In addition, the CDFI Fund has allocated $16 billion in tax credit authority to Community Development Entities (CDEs) through the NMTC Program.

## Authorizing Legislation

The CDFI Fund was established as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994. The NMTC Program was authorized through the Community Renewal Tax Relief Act of 2000 and reauthorized as part of the Tax Relief and Health Care Act of 2006.

## CDFI Fund's Vision and Mission

The CDFI Fund's vision is an America in which all people have access to affordable credit, capital, and financial services. Its mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and economically distressed communities in the United States. The CDFI Fund achieves its purpose by promoting access to capital and local economic growth through:

1) the ***CDFI Program***, by making funding available to financial institutions that are certified or eligible to be certified as CDFIs, which in turn provide loans, investments, financial services and technical assistance to underserved populations and low-income communities;

2) the ***NMTC Program***, which provides tax allocation authority to CDEs, enabling investors in these CDEs to claim tax credits against their Federal income taxes. CDEs, in return, use the capital raised to make investments in low-income communities;

3) the ***BEA Program***, which provides cash awards to banks for increasing their investment in low-income communities and/or in CDFIs; and

4) ***Native Initiatives***, which provides Financial Assistance, Technical Assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs.

## What is a CDFI?

Generally, CDFIs are community-based specialized financial institutions that serve low-income people or work in economically distressed communities, often working in market niches that may be underserved by traditional financial institutions. Only financial institutions certified by the CDFI Fund can receive CDFI funding through the CDFI Program and Native Initiatives. Certain other entities can receive awards through the Native Initiatives.

CDFIs seek to provide a unique and wide range of financial products and services that may help their customers build wealth and achieve the goal of participating in the ownership society. While the types of products made available are generally similar to those provided by larger mainstream financial institutions such as mortgage financing for low-income and first-time homebuyers, small business lending, and lending for community facilities, CDFIs lend to and make equity investments in markets not served by traditional financial institutions. CDFIs may offer rates and terms that are more flexible than those provided by traditional financial institutions. CDFIs also seek to provide services that will help ensure that credit is used effectively, such as technical assistance to small businesses, home buying and credit counseling to consumers. CDFIs include regulated institutions such as community development banks, credit unions, and non-regulated institutions such as loan funds and venture capital funds, among others.

## Certification of Community Development Financial Institutions and Community Development Entities

CDFI certification is a designation conferred by the CDFI Fund. An organization that meets six statutory and regulatory criteria may be certified as a CDFI.

1. Has a primary mission of promoting community development;
2. Serves principally an investment area or targeted population;
3. Is an insured depository institution, or makes loans or development investments as its predominant business activity;
4. Provides development services (such as technical assistance or counseling) in conjunction with its financing activity;
5. Maintains accountability to its target market; and
6. Is a non-governmental entity and cannot be controlled by any governmental entities.

The certification is a requirement for accessing a financial assistance award from the CDFI Fund through the CDFI Program and the Native American CDFI Assistance (NACA) Program, and certain benefits through the BEA Program.  As of September 30, 2007 there were 778 Certified CDFIs.

A Community Development Entity (CDE) is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in low-income communities through the NMTC Program. CDEs must demonstrate a primary mission of serving low-income communities and low-income persons, and must demonstrate that they are accountable (through representation on a governing board or advisory board) to residents of low-income communities. CDEs are certified as such by the CDFI Fund and are eligible to apply for tax credit allocations through the NMTC Program.

Many CDEs create multiple subsidiary CDEs to own specific assets or classes of assets, and thus the number of CDEs has grown to 2,680 as of September 30, 2007. Benefits of being certified as a CDE include being able to: (1) apply to the CDFI Fund to receive a NMTC allocation to offer to its investors in exchange for equity investments in the CDE and/or its subsidiaries; or (2) receive loans or investments from other CDEs that have received a NMTC Allocation. CDEs must be certified to receive allocations of tax credits.

**Growth in Number of Certified CDFIs and CDEs**

| End of FY | CDFIs | CDEs |
|---|---|---|
| 1997 | 190 | |
| 1998 | 262 | - |
| 1999 | 334 | - |
| 2000 | 415 | - |
| 2001 | 468 | 31 |
| 2002 | 625 | 541 |
| 2003 | 694 | 1,184 |
| 2004 | 728 | 1,585 |
| 2005 | 752 | 1,954 |
| 2006 | 762 | 2,294 |
| 2007 | 778 | 2,680 |

CDEs are located in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. CDFIs are located in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

**Community Development Financial Institutions Program**: *Performance Goal: Build the capacity and coverage of CDFIs to provide credit, capital, and related services to otherwise underserved markets.*

Through the CDFI Program, the CDFI Fund provides Financial Assistance in the form of grants, loans, and equity investments to CDFIs, and Technical Assistance grants to CDFIs and entities that plan to become CDFIs.

- ***Financial Assistance (FA)*** awards are in the form of grants, loans, and equity investments to CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital.

- ***Technical Assistance (TA)*** awards are for CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and meet capital access needs in their target markets.  Technical Assistance awards can also be accessed by larger and more established CDFIs to support their continued development.

**New Markets Tax Credit Program:** *Performance Goal: Attract private sector capital into low-income communities through CDEs.*

The NMTC Program is intended to spur the investment of new private sector capital into low-income areas through CDEs, which in turn use the privately managed investment vehicles to make loans and equity investments in businesses and real estate projects in low-income communities.

By making an equity investment in a CDE, individual and corporate investors can receive a tax credit against their Federal income taxes worth 39 percent of the value of the amount invested in the CDE over 7 years.

The NMTC Program was authorized under the Community Renewal Tax Relief Act of 2000. The statute included $15 billion in allocation authority for seven years. Under the Hurricane Katrina Gulf Opportunity (GO) Zone Act of 2005 an additional $1 billion in allocation authority was directed to the rebuilding and renewal of the GO Zone. The NMTC Program was reauthorized for one-year, through the end of 2008, as part of H.R. 6111 the Tax Relief and Health Care Act of 2006. The provision will allow for an additional $3.5 billion in tax allocations under the program through 2008. Included in this provision was a requirement that the Department prescribe regulations to ensure that non-metropolitan (rural) counties receive a proportional allocation of Qualified Equity Investments (QEIs).

Calendar Year 2002 was the first year in which applications for NMTC were submitted to the CDFI Fund and, as of the end of FY 2007, five allocation rounds have been completed providing allocations of tax credit authority that will support, in the aggregate, equity investments of $16 billion (including $1 billion for GO Zone allocations). One more allocation round remains through which the CDFI Fund will allocate tax credit authority supporting $3.5 billion in investor capital plus.

**Bank Enterprise Award Program***: Performance Goal: Increase FDIC-insured institutions' investments in community development and economic revitalization in distressed communities.*

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. Through the BEA Program, the CDFI Fund provides monetary awards to regulated banks and thrifts for increasing their investments and financial activities in economically distressed communities (those with high poverty and unemployment) and/or investments in CDFIs. The size of the award is a percentage of the increase in activities from one annual reporting period to the next.

**Native Initiatives:** *Performance Goal: Build the capacity and coverage of CDFIs and other institutions to provide credit, capital, and related services to Native Communities.*

The CDFI Fund's Native Initiatives are intended to assist entities in overcoming barriers that prevent access to credit, capital and financial services in Native American, Alaskan Native, and Native Hawaiian communities. The central program of the Native Initiatives is the Native American CDFI Assistance (NACA) Program, which is targeted to increasing the number and capacity of existing or new CDFIs that serve Native Communities. In addition, the Native Initiatives includes training that seeks to foster the strengthening or development of Native CDFIs.

**Performance Measures:** This Performance and Accountability report includes a discussion of those performance measures the CDFI Fund considers the most significant. For a discussion about all of the CDFI Fund's performance measures, see the applicable appendix in the ***FY 2007 Performance and Accountability Report*** for the Department of the Treasury.

## Allocation of CDFI Funding

The CDFI Fund's appropriations comprise program funds and administrative funds. Program funds are amounts that are used for program awards (such as grants, loans, equity investments, and training contracts); administrative funds are amounts used to cover the costs to administer all programs, including the NMTC Program. As noted above, the Secretary has delegated authority to the CDFI Fund to allocate tax credits through the NMTC Program. As NMTCs are not monetary awards, they are not reflected in the chart below. The NMTC funding as shown in the chart represents program administration costs.

## Sources of CDFI Funding

Congress appropriates CDFI Funds annually to the CDFI Fund; each appropriation can be used over two fiscal years. Appropriations include fiscal year budget authority and, if any unobligated CDFI Funds from the prior year carryover. The annual appropriation amount includes borrowing authority to make loans.

**Sources of CDFI Funding**
(amounts in millions)

| | FY 2007 | FY 2006 |
|---|---|---|
| Appropriations | $54.5 | $ 54.5 |
| Use of No-Year Account | - | 1.3 |
| Prior Year Amounts Deobligated, Used to Fund Current Year Obligations | .4 | 1.0 |
| Carryover from Prior Year | 1.5 | 3.0 |
| Borrowing Authority Used | .7 | .6 |
| **Total Sources of CDFI Funds** | **$57.1** | **$ 60.4** |

(1) The No-Year account consist of investment income and proceeds from the redemption of investments.

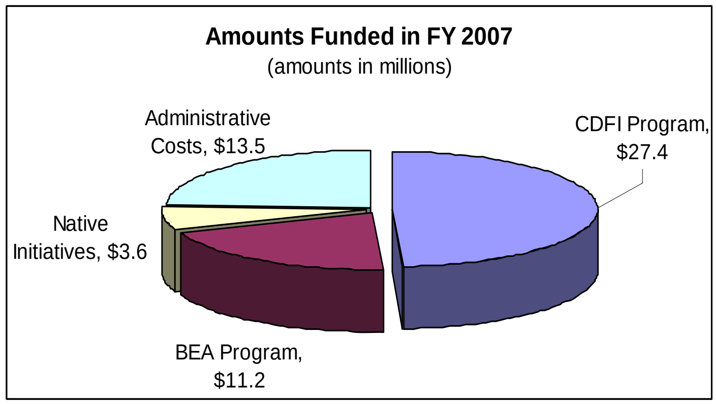
Note – above amounts do not include appropriations received pertaining to credit subsidy reestimates.

## Uses of CDFI Funding

During FY 2007, the CDFI Fund used CDFI Funding of $57.1 million as follows:

**Uses of CDFI Funding**
(amounts in millions)

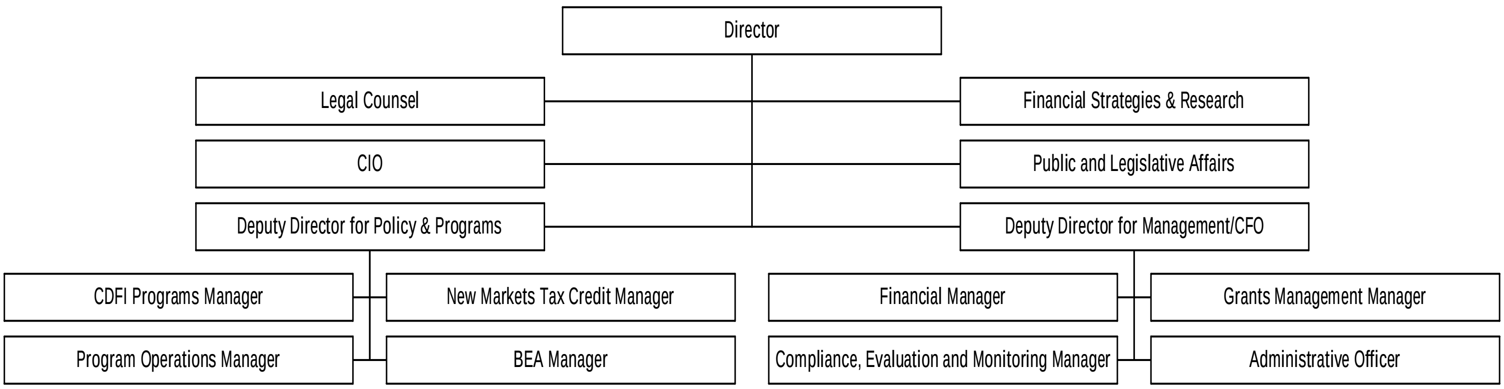
| | FY 2007 | FY 2006 |
|---|---|---|
| Amounts Funded | | |
| CDFI Program | $27.4 | $27.2 |
| BEA Program | 11.2 | 12.0 |
| Native Initiatives | 3.6 | 4.6 |
| Administrative Costs | 13.5 | 15.5 |
| Total Amounts Funded | $55.7 | $59.3 |
| Amounts Not Obligated | 1.4 | 1.1 |
| **Total CDFI Funding Used** | **$57.1** | **$60.4** |



# ORGANIZATION OF THE CDFI FUND

The CDFI Fund's organization structure consists of the Director, Deputy Director for Policy and Programs, Deputy Director for Management, Chief Financial Officer, Manager for Public and Legislative Affairs, Legal Counsel, Chief Information Officer (CIO), and various program and administrative support offices. The organization chart of the CDFI Fund is shown below.

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS CDFI FUND**
**SEPTEMBER 2007**



# Program Discussion and Analysis

## Community Development Financial Institutions Program

Through the Community Development Financial Institutions (CDFI) Program, the CDFI Fund uses federal resources to invest in and build the capacity of CDFIs to serve low-income people and communities lacking adequate access to affordable financial products and services. The CDFI Fund provides monetary awards for Financial Assistance (FA) and Technical Assistance (TA) grants through its CDFI Program. CDFIs use FA awards to further goals such as:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Community development financial services (provision of basic banking services to underserved communities and financial literacy training).

## Certified CDFIs

A certified CDFI is one that has been certified by the CDFI Fund as meeting all of the following statutory and regulatory criteria:

1. Has a primary mission of promoting community development;
2. Serves principally an investment area or targeted population;
3. Is an insured depository institution, or makes loans or development investments as its predominant business activity;
4. Provides development services (such as technical assistance or counseling) in conjunction with its financing activity;
5. Maintains accountability to its target market; and
6. Is a non-governmental entity and cannot be controlled by any governmental entities.

In addition to seeking certification to receive financial and technical assistance from the CDFI Fund, organizations pursue CDFI certification in order to leverage CDFI Funds from non-federal sources such as banks, foundations, and state and local governments.

The certification of organizations as CDFIs has been a long-standing goal of the CDFI Fund. By the end of FY 2007, the CDFI Fund had certified 778 CDFIs serving both rural and urban areas in all states and the District of Columbia, Puerto Rico, and the Virgin Islands. The majority of certified CDFIs as of the end of FY 2007 are loan CDFI Funds and credit unions. Far smaller percentages are banks, thrifts and depository holding companies, and venture CDFI Funds. The below percentages are very similar to those as of the end of the prior year.

## Breakdown of Types of Certified CDFIs

Not surprisingly, the most populous states have the most certified CDFIs: 28 percent of certified CDFIs are headquartered in the five most populous states (New York, Texas, North Carolina, Florida, and California)

CDFIs include banks, credit unions, loan funds, and venture capital funds, with each providing a different mix of products geared to reach specific customers, as follows:

- Community development banks are for-profit corporations which provide capital to rebuild economically distressed communities through targeted lending and investment;
- Community development credit unions are non-profit cooperatives owned by members which promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people;
- Community development loan funds (usually non-profits) provide financing and development services to businesses, organizations and individuals in low-income urban and rural areas and can be further categorized based on the type of client served: micro-enterprise, small business, housing and community service organizations; and
- Community development venture capital funds are both profit and non-profit organizations which provide equity and debt-with-equity features for businesses in distressed communities.

## CDFI Customers

CDFI customers consist of the following:

- Small business owners who provide employment opportunities and needed services to disadvantaged communities;
- Affordable housing developers that construct and rehabilitate homes in low-income communities;
- Community facilities that provide child care, health care, education and social services in underserved communities;
- Commercial real estate developers that finance the acquisition, construction or rehabilitation of retail, office, industrial and community facility space in low-income communities; and
- Individuals who are provided affordable banking services including checking and savings accounts, alternatives to predatory financial companies, and mortgages and other kinds of loans.

## Financial Assistance Component

The CDFI Program consists of two components: the Financial Assistance (FA) Component, which is by far the largest component of the program, and the Technical Assistance (TA) Component. Prior to FY 2003, the FA Component was referred to as the Core Component. Through the FA Component, the CDFI Fund invests in CDFIs that are able to demonstrate that they have the financial and managerial capacity to provide affordable and appropriate financial products and services that positively impact their communities, are viable financial institutions, and use and leverage CDFI Fund dollars effectively.

Through the CDFI Program, the CDFI Fund invests in and supports community-based organizations, known as community development financial institutions - or CDFIs – that provide financing and related services to communities and populations that lack access to credit, capital and financial services. FA awards are made in the form of equity investments, loans, deposits, or grants, depending on applicant needs, and must be matched by the applicant with funds of the same type from non-federal sources. FA awards enable CDFIs to leverage private capital to respond to demand for affordable financial products and services in economically distressed markets and by low-income families. CDFIs respond to this demand through the provision of loans, investments, training, technical assistance, and basic financial services such as checking or savings accounts. Based on data supplied by CDFIs required to report to the CDFI Fund, it is estimated that CDFIs leverage their FA awards with other dollars by an average of 19:1.

Applicants can apply for Financial Assistance only, Technical Assistance only, or a combination of both through a single application. Those applicants applying for Financial Assistance will have to indicate which of two categories types it is applying under: Category 1 – Small and Emerging CDFI Assistance (SECA); and Category 2 – Core.

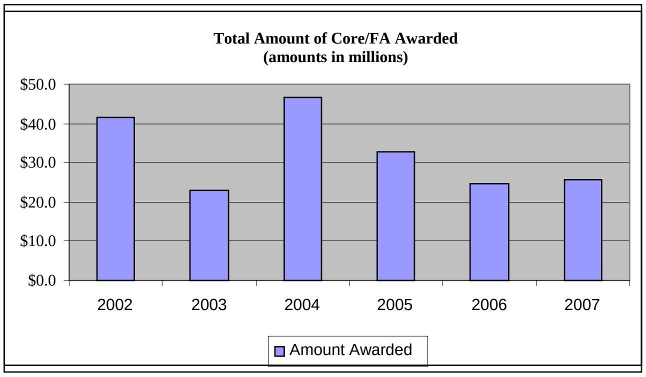
## Changes to the Financial Assistance Component During FY 2007

There were no substantive changes to the Financial Assistance component in FY 2007.

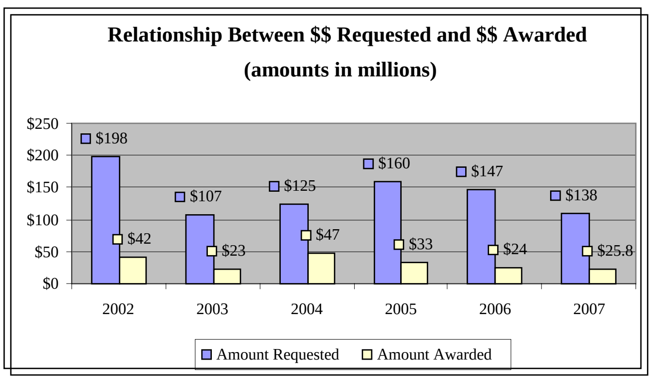
## FY 2007 Awards

During FY 2007, the CDFI Fund received 184 applications requesting $138 million in Financial Assistance and Technical Assistance, including 53 SECA applicants requesting $23.8 million and 82 Core applicants, seeking $109.7 million.

The CDFI Fund awarded $25.8 million to 49 organizations in FY2007, including 14 SECA awards for $3.5 million and 35 Core awards for $22.3 million. This is compared to 52 organizations in FY2006 that received $24.47 million in FA awards. The following bar graph shows the total amount of Core funds awarded since 2002. The FY 2007 award amount reflects the appropriated dollars for that year under a Continuing Resolutions from FY06.




The bar graph shows a significant difference between the FY 2003 and FY 2004 amounts, which was due to program changes made in FY 2003. The change resulted in a smaller number of applications received that year. Amounts not awarded during FY 2003 were carried over and awarded in FY 2004. The reduction in FA awards from FY 2004 to FY 2005 is attributable to these additional awards made in FY 2004 combined with a $5 million reduction in appropriated dollars for FY 2005.




* FY 2003 and FY 2004 amounts consist of FA applications and awards; Core applications and awards are prior to FY 2003.

## Technical Assistance Component

The Technical Assistance (TA) Component provides grants to build the capacity of start-up and existing CDFIs by acquiring prescribed types of products or services including technology (usually efficiency enhancing technology such as computers and loan management software), staff training, consulting services to acquire needed skills or services (such as a market analysis or lending policies and procedures), or staff time to conduct discrete, capacity-building activities (such as website development).

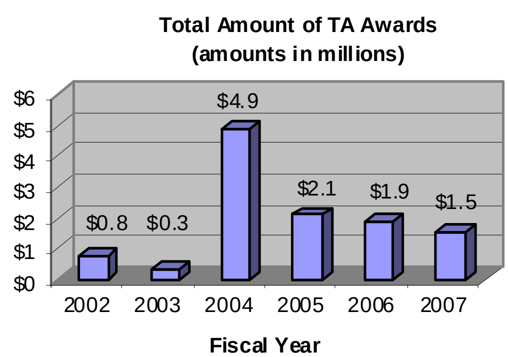
More established CDFIs also use TA grants to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations; examples include upgrading computer hardware and software.

## Changes to the Technical Assistance Component During FY 2007

There were no substantive changes to the Technical Assistance component in FY 2007.

## FY 2007 Awards

In FY 2007, the CDFI Fund received 49 applications requesting $4.8 million in TA only grants of which $1.5 million was awarded to 19 organizations, compared to the $1.9 million awarded to 21 organizations during FY 2006.



## CDFI Program Performance

CDFI Program awardees report their annual performance to the CDFI Fund through the CDFI Fund's web-based reporting system, the Community Investment Impact System (CIIS). Each awardee has 180 days from its fiscal year end to report through CIIS. This time allows the awardee to complete its annual audit and enables the CDFI Fund to verify reported information against the audit.

The performance information provided herein pertains to each awardee's 2006 fiscal year. It should also be noted that due to the length of time from notice of award through award disbursement, award deployment by an awardee, and receipt by the CDFI Fund of awardee impact information, the effect of the CDFI Fund's awards made during any given year is not known until quite some time later.

Results based on information entered into CIIS by 212 CDFI Program awardees are shown in the table below:

| Performance of 212 CDFI Program Awardees During FY 2006 * | |
|---|---|
| 1. # of Full Time Jobs Created or Maintained (53) | 35,022 |
| 2. # of Businesses Financed (49) | 5,957 |
| 3. # of Commercial Real Estate Properties Financed (37) ** | 922 |
| 4. # of Affordable Housing Units Financed (33) | 14,083 |
| 5. # of Homebuyers Who Obtain Financing (48) ** | 2,060 |
| 6. # of Accounts Opened to the Unbanked (11) | 7,838 |
| 7. Dollars, in millions, Leveraged with Private Investments | $781 |
| 8. # of Individuals Provided with Financial Literacy and Other Training (165) | 156,443 |
| 9. Individual Development Accounts (IDAs) Provided by CDFIs (32): | 2,434 |
| 10. Dollar amount, in millions, of IDAs (32): | $1.93 |

* As of the date this report was produced, the CDFI Fund had not completed the "cleansing" process for CIIS data. During cleansing, the CDFI Fund reviews the data for consistency with the CDFI's financial statements and overall reasonableness. The data in this table represent 22 cleansed and 190 uncleansed CIIS reports. Numbers in parentheses are the number of CDFI awardees reporting on this particular measure.

** Financing applies for the purposes of construction and rehabilitation, respectively.

## New Markets Tax Credit Program

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

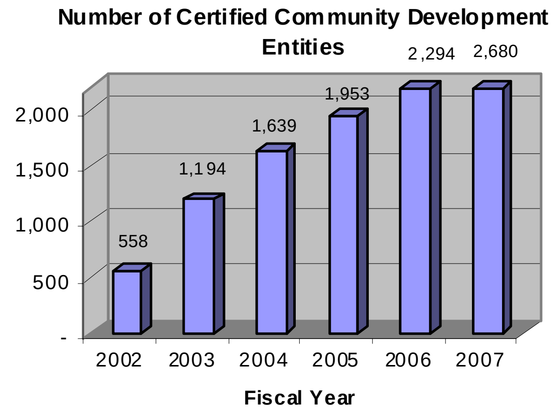
The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period

To qualify as a CDE, an entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. As of September 30, 2007, 2,680 organizations have been certified as CDEs by the CDFI Fund, compared to 2,294 as of one year earlier.

## Results of First Four NMTC Allocation Rounds

Throughout the life of the NMTC Program, the CDFI Fund is authorized to allocate to CDEs the authority to issue to their investors up to $19.5 billion in equity against which NMTCs can be claimed, including $1 billion of special allocation authority made available under the Gulf Opportunity (GO) Zone Act of 2005 to be used for the recovery and redevelopment of the Hurricane Katrina GO Zone.

Allocations are awarded annually through a competitive process. To date, the CDFI Fund has completed five allocation rounds and has made 294 awards totaling $16 billion in allocation authority, including $1 billion in special GO Zone allocation authority under the 2006 and 2007 allocation round. The 2007 allocation round provided $3.9 billion in allocation authority, including the final $400 million in special GO Zone allocation authority.




Demand for the tax credits has been high, as 1,336 applicants have requested credits supporting over $136 billion in equity investments – over eight times the amount of allocation authority available for distribution by the CDFI Fund. Through the first five allocation rounds, only 22% of applicants have been selected to receive an award. The average tax credit allocation award through the first five rounds was approximately $54 million

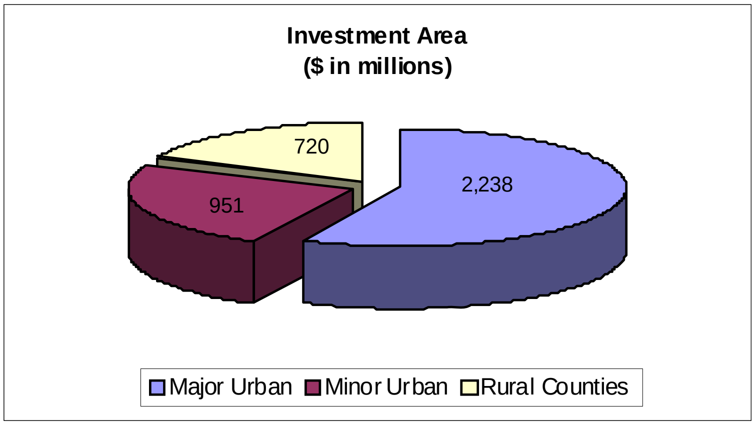
**Completed Funding Rounds (Dollars in Billions)**

| Round | Applications Number | Applications Amount | Allocations Number | Allocations Amount |
|---|---|---|---|---|
| 1 | 345 | $25.8 | 66 | $2.5 |
| 2 | 271 | $30.4 | 63 | $3.5 |
| 3 | 208 | $22.9 | 41 | $2.0 |
| 4 | 254 | $28.3 | 63 | $4.1 |
| 5 | 258 | $27.9 | 61 | $3.9 |
| | 1336 | $135.3 | 294 | $16.0 |

## 2007 NMTC Allocation Round (Round 5) Summary

In October of 2007, the CDFI Fund announced that 61 applicants had been awarded $3.9 billion in NMTC allocation authority, including 11 applicants that were awarded $400 million for specific use in the recovery and redevelopment of the Hurricane Katrina GO Zone.

The 61 allocatees are headquartered in 24 different states and the District of Columbia, but anticipate making awards in 45 different states, as well as D.C and Puerto Rico. Based upon information reported by the allocatees, it is anticipated that approximately $2.238 billion (or 57.3%) will be invested in major urban areas; approximately $951 million (or 24.3%) will be invested in minor urban areas; and approximately $720 million (or 18.4%) will be invested in rural areas.




These 61 allocatees have committed to achieving results above and beyond minimal program requirements:

- Fifty-two of the 61 of the allocatees indicated that 100% of their investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50% below market and/or is characterized by at least five concessionary features, with the remaining nine allocatees committing to providing debt that is at least 33% below market and/or characterized by at least four concessionary features. Such features include, among other things; subordinated debt, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.

  - All 61 allocatees indicated that at least 80% of their activities will be provided in areas of higher economic distress (and/or areas targeted for development by other government programs) than are minimally required under NMTC Program rules, including 47 indicated that 100% of their activities would be provided in such areas.

  - All 61 of the allocatees indicated that they would invest more than the minimally required 85% of QEI dollars into Qualified Low-Income Community Investments (QLICI), and 49 of the 61 allocatees indicated that at least 97% of their QEI dollars would be invested into qualified low-income community investments. In real dollars, this means at least $501 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.

## NMTC Activities to Date

Allocation agreements have been executed with each of the 233 allocatees from the first four rounds. As of September 30, 2007, allocatees had reported raising QEIs totaling $8.35 billion.

Allocatees report QEI and QLICI activity to the CDFI Fund through the Community Investment Impact System (CIIS). Allocatees that have raised QEIs are required to complete an annual Institution Level Report (ILR) in CIIS. Allocatees that have made QLICIs are also required to submit an annual Transaction Level Report (TLR) in CIIS. An allocatee's ILR, TLR, and audited financial statements are due 180 days after the end of its fiscal year.

All results in this section represent the allocatees' data reported through their FY 2006. As shown in the table below, allocatees reported making $2.47 billion of loans and investments in QALICBs (Qualified Active Low Income Community Businesses) in FY 2006, and a total of $5.45 billion of loans and investments in QALICBs since the program's inception. In FY 2006, 70% of the loans and investments in QALICBs supported real estate development or rehabilitation. It is projected that these loans and investments will result in the development or rehabilitation of 19 million square feet of commercial real estate, and the creation of more than 90,000 construction jobs.

The remaining 30% of the loans and investments to QALICBs were made to operating businesses in low-income communities. The businesses financed by allocatees created or maintain nearly 8,200 Full Time Equivalent (FTE) jobs in FY 2006 alone. Finally, the allocatees reported that 98% of the loans and investments they provided in FY 2006 had better rates and terms than could be offered in the prevailing market.

In FY 2006, allocatees also reported making over $95 million in direct investments into other CDEs, purchasing $49 million in loans from other CDEs, and providing financial counseling and other services to 678 businesses in low-income communities.

(Note: Table on following page).

| Performance of 63 NMTC Allocatees (6/1/07) | | | |
|---|---|---|---|
| **Type of QLICI** | | **FY 2006 Performance*** | **FY 2003 - FY 2006 Cumulative Performance**** |
| **QALICB: Real Estate Development and Rehabilitation** | | | |
| 1 | Loans and investments supporting real estate development and rehabilitation in low-income communities. | $1.745 billion | $3.707 billion |
| | | 340 loans/investments | 757 loans/investments |
| 2 | Square footage of commercial real estate projected to be developed and rehabilitated. | 19 million square feet | 46 million square feet + |
| 3 | Number of full-time equivalent (FTE) construction jobs projected to be created. | 90,385 FTEs | 145,995 FTEs |
| **QALICB: Business Support ***** | | | |
| 1 | Loans and investments supporting businesses operating in low-income communities. | $725 million | $1.74 billion |
| | | 340 loans/investments | 739 loans/investments |
| 2 | Number of full-time equivalent (FTE) jobs created or maintained.**** ++ | 8,145 FTEs | 19,629 FTEs ++ |
| **CDE** | | | |
| 1 | Loans and investment in other CDEs. | $95 million | $122 million |
| | | 14 loans/investments | 25 loans/investments |
| **Loan Purchases** | | | |
| 1 | Purchase of loans from CDEs. | $49 million | $119 million |
| **FCOS** | | | |
| 1 | Investment in Financial Counseling and Other Services (FCOS). | $317 thousand | $567 thousand |
| 2 | Number of businesses receiving FCOS. | 678 businesses served | 1,201 businesses served |

* Fiscal Year (FY) 2006 performance is based on data available as of September 5, 2007. At that time, the CDFI Fund had not completed the "cleansing" process for CIIS data. During cleansing, the CDFI Fund reviews the data for consistency and general logic. The data in the table represent both cleansed and uncleansed CIIS reports.
** Cumulative performance is based on data available as of September 5, 2007. Each year, allocatees are permitted to update data reported in previous fiscal years to correct errors or provide newly available information. As a result, the cumulative figures may not exactly add up to the FY03 thru FY06 annual performance figures reported by the CDFI Fund in this and previous Performance and Accountability reports.

*** Business Support includes loans and investments with a purpose of "Other," which includes, for example, equity investments in operating businesses.
**** The FY 2006 jobs figure includes jobs created in FY 2006 by businesses financed in prior years as well as businesses financed in FY 2006.
+ FY06 PAR report showed a cumulative total of 43 million square feet. The cleansing process was not finished at the time resulting in the reporting deficiency. The cumulative total being reported this FY is more accurate than the previous year.
++ FY06 PAR report shows a cumulative total of 20,788 FTEs. The cleansing process was not finished at the time resulting in the reporting deficiency. The cumulative total being reported this FY is more accurate than the previous year.

## Bank Enterprise Awards Program

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in economically distressed communities. Providing monetary awards for community reinvestment leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation. By statute, the BEA Program is highly targeted to areas with larger populations. In general, approximately 4000 Census Tracts qualify as "distressed communities" under the program.

BEA Program awards are based on a percentage of the increase in the amount of Qualifying Activities from a Baseline Period to a later Assessment Period (the corresponding time the following year). Qualified Activities consist primarily of financial assistance provided to certified CDFIs as well as the various loans made by financial institutions (for example, affordable housing loans, small business loans, real estate development loans), and services (such as access to automated teller machines and opening of savings accounts).

## Promoting CDFI Investments Through the BEA Program

The BEA Program has a dual purpose. The first priority is to increase banks' financial support of CDFIs in order to build CDFI self-sufficiency and capacity (referred to as CDFI Related Activities). The second priority is to build the capacity of Federal Deposit Insurance Corporation (FDIC) insured depository institutions to expand their community development lending and investments within severely underserved areas (referred to as the Distressed Community Financing Activities and Service Activities).

By statute, the CDFI Fund must award applicants in the CDFI Related priority before making awards to applicants in the Financing Activities priority and Service Activities priority.

The prospect of a BEA Program award encourages banks to achieve this first priority by providing low cost capital and operating support to CDFIs, which has helped to create and sustain a network of CDFIs. CDFIs serve as a delivery mechanism for banks to partner with to better serve highly distressed neighborhoods.

## Eligibility

All depository institutions insured by the FDIC are eligible to apply for a BEA Program award. The BEA Program rewards actual increases in the dollar volume of Qualified Activities from a Baseline Period to a later Assessment Period. Qualified Activities for the BEA Program are divided into three priority areas:

1. CDFI-Related Activities: Equity investments (grants, stock purchases, purchases of partnership interests or limited liability company membership interests), equity-like loans, and CDFI support (loans, deposits or technical assistance) to certified CDFIs (referred to as CDFI Partners).

2. Distressed Community Financing Activities: Loans or investments for affordable home mortgages, affordable housing development, education, small businesses, and commercial real estate development in economically distressed communities.

3. Service Activities: Deposits, financial services (such as check-cashing, money orders, or certified checks), electronic transfer accounts (ETAs), individual development accounts (IDAs), First Accounts, or community services provided to low- to moderate-income individuals or the institutions serving them.

## Changes to the BEA Program During FY 2007

There were no substantive changes to the BEA Program in FY 2007.

## FY 2007 BEA Program Awards

For FY 2007, the CDFI Fund received 71 eligible applications requesting just over $29 million, compared to 59 applications requesting almost $45 million in the prior year. The CDFI Fund selected 51 FDIC-insured institutions to receive approximately $11 million in awards. The FY 2007 applicants are headquartered in 18 states, compared to the 15 states represented in the prior year.

FY 2007 applicants provided $407.3 million in loans or investments in distressed communities, $62.8 million in loans, deposits and technical assistance to CDFIs, and $883,050 in equity investments and grants to CDFIs.

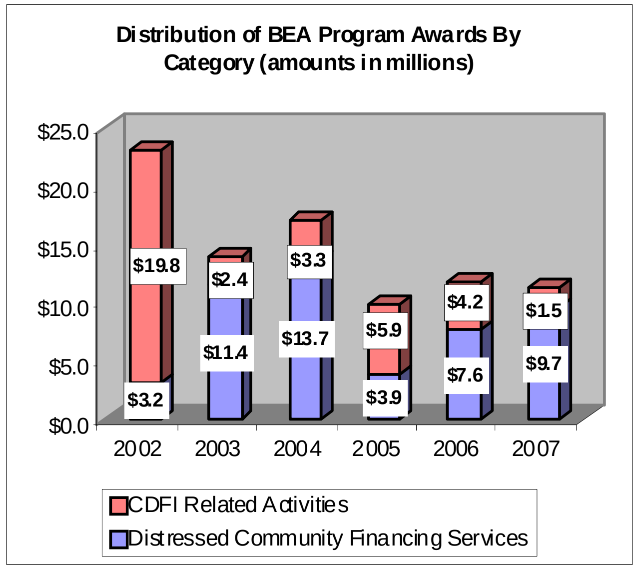
## FY 2007 Community Impact

The 71 FY 2007 eligible applicants increased their qualified community development activities by $227 million over the prior year.

- $193.2 million increase in loans and investments in distressed communities;
- $31.8 million increase in loans, deposits, and TA to CDFIs;
- $883,050 increase in equity investments or grants; and
- $97,000 increase in financial services in distressed communities.

## BEA Program Awardee Activities

The trend of investments in distressed communities and investments in CDFIs by BEA awardees is shown in the Distribution of BEA Program Awards by Category chart.



## Native Initiatives

The CDFI Fund's Native Initiatives originated from the findings of its "Report on the Native American Lending Study" delivered to Congress in November 2001. The study evaluated access to credit, capital and financial services in Native American, Alaska Native and Native Hawaiian communities and identified barriers to provide such financing. To address these barriers, the CDFI Fund's Native Initiatives increases opportunities to access credit, capital and financial services by creating or expanding Native CDFIs primarily serving Native communities. The Fund's Native Initiatives helps create Native CDFIs as well as to strengthen the operational capacity of existing ones.

The Native Initiatives are based on six objectives:

1. Expanding training opportunities in community development finance for Native communities;
2. Offering technical assistance to overcome barriers to creating and sustaining Native CDFIs;
3. Offering Technical and Financial Assistance awards targeted to meet the needs of existing or proposed Native CDFIs;
4. Encouraging mainstream financial institutions to increase their financial products and services in Native communities;
5. Supporting financial education activities to Native Communities; and
6. Facilitating networking and in-depth training forums in community development finance.

The CDFI Fund's Native Initiatives achieves the above six objectives through two principle strategies: 1) CDFI funding for the Native American CDFI Assistance (NACA) Program, which increases the number and capacity of existing or new Native CDFIs, and 2) a NACA training initiative that fosters new Native CDFIs and strengthens the operational capacity of existing ones.

## NACA Program FY 2007

The NACA Program helps proposed and existing Native CDFIs build their capacity to address the community development and capital needs of Native communities. The Program provides Financial Assistance (FA) and Technical Assistance (TA) grants to Native CDFIs. In FY 2007, the Fund received 29 NACA applications requesting nearly $11 million, including 10 requests for $7.7 million in FA. The Fund awarded $3.6 million to 19 organizations, compared to $4.2 million for 21organizations in FY2006.

## Financial Assistance Grants

Under the NACA Program, eligible Native CDFIs can apply for FA awards (such as loans or grants depending on the source of matching CDFI Funds) to support their financing activities. In FY2007, the Fund made three FA awards for about $1.3 million. Two of the three organizations also received TA grants totaling $251,947. There were fewer awards in FY2007 compared to FY 2006 in which six FA awards were made with a total of $2.25 million and five of the organizations also received a total of $519,000 in TA grants.

## Technical Assistance Grants

TA grants help awardees build their capacity to provide financial services and products. Awardees can use TA grants to: 1) acquire products or services such as technology or staff and board training; 2) engage consulting services to undertake activities like a market analysis or development of lending policies and procedures; 3) pay for staff time to conduct capacity-building activities like website development; and 4) general on-going operational activities such as staff salary, rent and utilities.

In FY 2007, the CDFI Fund awarded $2.3 million in TA grants to 19 organizations, similar to the awards it made in FY 2006 when it provided $2 million to 20 organizations.

## Training Initiatives

Under the Native Initiatives program, the CDFI Fund engages a contractor to provide specific training and technical assistance to existing and proposed Native CDFIs. The CDFI Fund has contracted with the First Nations Oweesta Corporation (Oweesta) to deliver four 3- day financial education workshops which are based on the *Building Native Communities* financial education series specifically tailored to a Native CDFI audience. Accompanying this training is a technical assistance component, allowing up to six days of onsite assistance to Native communities to help them develop financial education programs for their communities. This Fund- sponsored training will provide Native CDFIs with the tools and guidance to engage other community organizations to build an effective program that is user friendly to all age groups.

Also as part of the contract, Oweesta will partner with other organizations to develop a Native focused national entrepreneurship training and technical assistance program that builds on current local efforts, captures effective practices, and encourages sustainable and collaborative models. Oweesta and its partners will examine the potential of integrating existing entrepreneurship curricula in an effort to maximize time and reduce expenses. Participating Native CDFIs and other organizations, such as tribal colleges, will learn how to incorporate experiential entrepreneurship education into their development services programming. Individual follow-up technical assistance will focus on working with the organizations to help adapt the principles and curriculum to each organization's menu of services.

The CDFI Fund also awarded a contract to Opportunity Finance Network (OFN). This contract will extend the Native CDFI series of workshops and TA for one additional year. In addition, it will extend TA for past participants of the program. Furthermore, this contract will: 1) introduce a training program targeted to Native credit unions; 2) develop an impact measurement tool for use by Native CDFIs; 3) introduce a peer shadow/mentoring program; and 4) provide TA for mature and existing Native CDFIs to enable these organizations to strengthen or increase the services they are able to offer.

# Status of Financial Management

# Financial Management

This section includes the assurance statement required under the Federal Managers' Financial Integrity Act, a summary of the results of the FY 2007 financial statement audit, a summary of the financial management initiatives of the CDFI Fund during FY 2007, and a discussion of the CDFI Fund's financial position and results of operations during the past fiscal year.

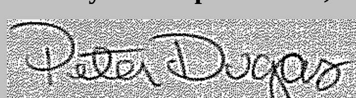
# Management Assurances

**Department of the Treasury**
**Community Development Financial Institutions Fund**
**Annual Assurance Statement for FY 2007**

**Management of the Community Development Financial Institutions Fund is responsible for establishing and maintaining internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). With the exception discussed in the paragraph below, Fund management can provide reasonable assurance that the objectives of FMFIA are met and that there are no material weaknesses in the design or operation of internal controls as of September 30, 2007.**

**Performance information pertaining to the number of jobs created, and a portion of the leverage calculation (private sector dollars leveraged using Fund financial assistance awards) are compiled from information self reported by awardees. Although there is no third party verification of the reported information, the Fund is not aware of any integrity problems with the information.**

**Fund management can also provide reasonable assurance that internal control over financial reporting was operating effectively as of September 30, 2007.**



**Peter Dugas**
**Acting Director**

**Description of the CDFI Fund's Financial Management System**

The CDFI Fund contracts for accounting services under a franchise agreement with the Bureau of the Public Debt's Administrative Resource Center (ARC) in Parkersburg, West Virginia. While the ARC maintains the accounting system relating to the Fund's transactions, the Fund is responsible for generation of all source documents and the accuracy of all accounting information.

The CDFI Fund's financial management system includes the transactions maintained by ARC in the accounting system as well as records maintained and procedures performed by the CDFI Fund's financial management staff in Washington, D.C. The Fund's financial management staff is directly responsible for the administrative control of its funds, financial planning, budget formulation and execution, and review and analysis of financial information.

# FY 2007 Financial Statement Auditors' Report

The Fund received a disclaimer of opinion on its FY 2007 financial statements. The auditors also reported two significant deficiencies, neither of which were considered material weaknesses. The auditors' report can be found starting on page 29.

# FY 2007 Financial Management Initiatives

In FY 2007, the financial management focus was on continuing to implement and enhance prior year information technology initiatives.

# Community Investment Impact System (CIIS)

CIIS is a web-based system designed to collect an Institution Level Report (ILR) and Transaction Level Report (TLR) from CDFIs and CDEs. The CDFI CIIS data collected includes the organization's profile, financial position, portfolio, community impacts, development services, other products and services, and compliance measures. The CDE CIIS data collected includes the organization's profile, QEI distribution, portfolio, loan purchases, and financial counseling and other services. In fiscal year 2007, CIIS was used by 210 CDFIs and 135 CDEs. Fiscal year 2007 showed a tremendous increase in institutional and transaction level data being reported as 260 organizations submitted the details of over 53,000 portfolios of loans and equity investments. This is more than double the number of transactions reported in the previous year.

In the past year, the CDFI Fund has used the CIIS data to analyze the characteristics of CDFIs (including their loan and investment portfolios, capital under management, operating revenues, and overall financial strength) and assess the impact CDFIs are having in the communities they serve. The first round of this analysis was published in June 2007 in "Growth, Diversity, Impact: A Snapshot of CDFIs in FY 2003." The CDFI Fund will continue to use the institutional and transaction level data to assess the effectiveness of CDFIs and CDEs in bringing economic development to distressed areas. The data will also be used to educate the public about community development finance, and to compare CDFI and CDE portfolios over time. FY 2007 marks the first time that the Fund made the CIIS data available to the public (within the parameters of all applicable Federal information protection, privacy and confidentiality laws). The Fund provided public-use CIIS data and financial support to twelve independent research teams as part of its CDFI Research Initiative. This research will culminate in a series of round-table discussions and published volume of research papers in the spring and summer of 2008.

Much of the performance information in The Community Development Financial Institutions Program section of the Discussion and Analysis section was provided by an analysis of CIIS data.

## Migration to Grants.gov for Paperless Processing of Applications

The Federal Financial Assistance Management Improvement Act (P.L. 106-107), and the President's Management Agenda require all federal grant making agencies to migrate 100% of their electronic program applications to the Grants.gov system administered by the Department of Health and Human Services by September 30, 2007. During FY 2007, the CDFI Fund migrated the last of its applications (Native Initiatives) to Grants.gov, therefore meeting this goal. Under this initiative, we have begun realizing cost savings associated with the intake and processing of our grant applications. Grants.gov also undertook a modernization effort in FY 2007 to update its underlying technology from the Pure Edge Viewer to Adobe. This was a phased transition with both technologies being accepted for a period of time. The CDFI Fund worked with our applicants to inform them of this change and trained them on the new technology.

## Migration to a Grants Management Line of Business for Internal Application Processing

The Federal Financial Assistance Management Improvement Act and the President's Management Agenda also require that all federal grant making agencies completely migrate their electronic grant processing systems to one of three federally selected centers of excellence. This initiative is known as the Grants Management Line of Business. The CDFI Fund has selected the Department of Health and Human Services, Administration for Children and Families, as our grant processor. Planning for the transition and a fit gap analysis continued in FY 2007 and the entire transition must be completed by FY 2011. During the transition period, the CDFI Fund will continue to run parallel systems for seamless operations and there will be no disruption of services to our customers. When this initiative is completed, it is anticipated that there will be a substantial cost savings to the CDFI Fund pertaining to the processing of grant applications.

## Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act of 2006 requires that all grant making agencies fully disclose all organizations that receive federal funds. This information will be reported to the public on a website maintained by the Office of Management and Budget. The CDFI Fund has already taken steps to comply with this act. We have responded to several data calls and have begun the planning process for reporting our data to this system. Reporting of this data will include award data starting with FY 2007 when the system is up and running.

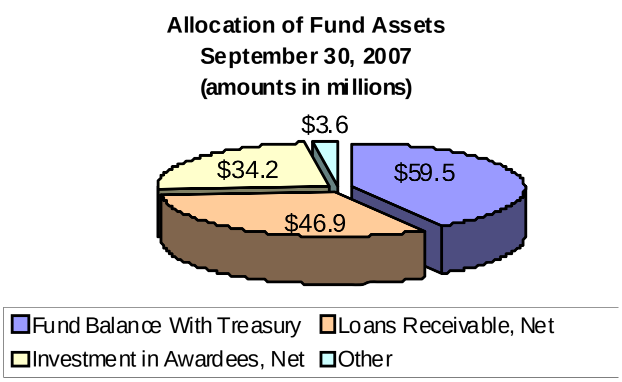
## Management Responsibilities

CDFI Fund management is responsible for the fair presentation of information contained in the principal financial statements in conformity with accounting principles generally accepted in the United States of America. Management is also responsible for the fair presentation of the CDFI Fund's performance measures in accordance with the Office of Management and Budget requirements. The quality of the CDFI Fund's internal control structure rests with management, as does the responsibility for identification of and compliance with applicable laws and regulations.

## Limitations of the Financial Statements

The financial statements report the financial position and results of operations of the Community Development Financial Institutions Fund for the years ended September 30, 2007 and 2006, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the CDFI Fund in conformity with accounting principles generally accepted in the United States of America, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

## Analysis of Financial Position and Results of Operations




**Summarized Financial Data**
(amounts in millions)

| | FY 2007 | FY 2006 | Increase / (Decrease) |
|---|---|---|---|
| Assets | $144.2 | $146.5 | ($2.3) |
| Liabilities | $56.2 | $52.0 | $4.2 |
| Net Position | $88.0 | $94.5 | ($6.5) |
| Revenue and Financing Sources | $59.0 | $59.8 | ($0.8) |
| Expenses | $60.6 | $65.0 | ($4.4) |
| (Shortage) of Revenue and Financing Financing Sources Under Expenses | ($1.6) | ($5.2) | $3.6 |

## Assets

Assets decreased by $2.3 million during the year, consisting primarily of a $3.1 million decrease in loans receivable, offset by an increase of $.8 million in other assets.

## Fund Balance with Treasury

While the Fund Balance with Treasury reflected virtually no change from the prior year, this is contrary to the Fund's expectation that the balance would continue to decrease each year. During FY 2006, for example, the Fund Balance with Treasury decreased by $12.6 million. The reason for no change in the balance during FY 2007 was due primarily to the fact that none of the $11.2 million in FY 2007 Bank Enterprise Award (BEA) program awards were disbursed during the year. Most of the amounts awarded in each of the past three BEA funding rounds were disbursed in the same year as the award. BEA awards were not disbursed due to limited staff resources under this program during the award process, which delayed the processing of the awards and pushed the related disbursements into FY 2008. This was also the reason for the increase in awards payable.

## Loans Receivable

Loans receivable are increased when loan awards (under the CDFI and Native Initiative programs) are disbursed by the CDFI Fund and decreased for loan repayments and loan write-downs. During FY 2007, loans decreased by $4.1 million, resulting from repayments of $4.5 million and write-downs of $.6 million, offset by additional loans disbursed during the year of $1 million. The allowance for loan losses decreased by $1 million.

The effect of these transactions resulted in a net decrease in loans receivable of $3.1 million.

## Liabilities

The increase in liabilities during the year of $4.2 million consisted of an increase in awards payable of $7.9 million offset by a decrease in debt of $3.6 million and a decrease in other liabilities by $.1 million.

## Awards Payable

Awards payable consists primarily of undisbursed BEA awards (recorded as a liability at the time of award).

Awards payable has decreased significantly over the past several years, going from $64.7 million at the end of FY 2001, to $5.5 million at the end of the FY 2006. This decrease occurred for two reasons: 1) the Fund's annual budget appropriation for the BEA Program peaked in FY 2001 with a $46 million appropriation, decreasing to $11 million in FY 2007, so there was a smaller amount of BEA Program awards to make each year, and 2) the CDFI Fund has been able to disburse a significant amount of BEA awards over each of the past several years, since there is no matching funds requirement for BEA awardees.

However, due to limited staff resources, the Fund was not able to disburse any of the FY 2007 BEA awards during FY 2007, and so this served to increase awards payable. Note that this also affected the Fund Balance with Treasury, in that Fund Balance stayed virtually the same as of the end of FY 2007 and FY 2006, rather than following the trend of annual decreases as in prior years.

## Debt

The decrease in debt of $3.6 million relates to repayments of amounts borrowed from Treasury to fund loans to awardees. Principal repayments collected from awardee loans during the year are used to repay the Treasury borrowings, and therefore amounts collected and repaid to Treasury each year will vary from year to year, as they are a function of awardee loan terms.

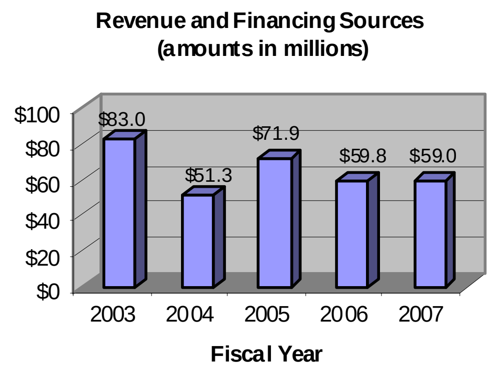
## Net Position

Net position decreased during the year by $6.5 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the Fund's subsidy re-estimate, and 3) the excess (or shortage) of revenue and financing sources over (under) expenses. During FY 2007, appropriations received (net of amounts cancelled and rescinded) were $52 million, and appropriated capital used was $56 million. This difference of $4 million decreases net position.

During the year the CDFI Fund adjusted its subsidy reestimate downward by $.3 million, which required an additional borrowing from Treasury. As stated above, the amount borrowed is used to pay back to the Treasury Department the excess subsidy amounts appropriated in prior years. This $.3 million repayment reduces net position.

The shortage of net revenue and financial sources under expenses contributed an additional $2.2 million of the decrease in net position (this amount is discussed below).

## Revenue and Financing Sources, Expenses, and Shortage of Revenue and Financing Sources Under Expenses



## Revenue and Financing Sources

The primary source of revenue and financing sources for the CDFI Fund is the annual appropriation used to fund expenses ("appropriated capital used" as reflected in the statement of operations). Pursuant to Federal grant accounting requirements, the amount of appropriated funds recognized as revenue is, with certain adjustments, equal to the amount of operating expenses for the year. Operating expenses for the year excluding those paid for by others were $57.1 million; however, $1.1 million of this amount was funded from the no-year account (this amount pertains to CDFI grants), which is not part of the annual appropriation. Accordingly, appropriated capital used is equal to this net $56 million amount. An explanation for the $2.9 million decrease in operating expenses from FY 2006 to FY 2007 is discussed in the *Expenses* section below.

## Expenses

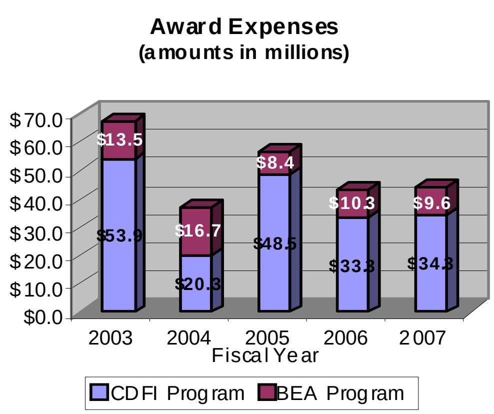
The change in the CDFI Fund's operating expenses during FY 2007 consisted of the following:

**Comparison of Operating Expenses**
**Fiscal Years 2007 and 2006**
**(amounts in millions)**

| | FY 2007 | FY 2006 | Difference |
|---|---|---|---|
| Award Expenses | $43.8 | $43.6 | $0.2 |
| Administrative Expenses | $14.3 | $15.9 | ($1.6) |
| Bad Debt Expense | ($0.4) | $1.1 | ($1.5) |
| Total Operating Expenses | $57.7 | $60.6 | ($2.9) |

## Award Expenses

There was virtually no change in award expenses during the year, due to the fact that the FY 2007 and FY 2006 appropriation for awards was the same each year.




## Administrative Expenses

FY 2007 administrative expenses were $1.6 million less than the prior year. There were two main reasons for this decrease: 1) FY 2006 administrative costs were unusually high, resulting from the write-off of $2.5 million in software costs in development which were determined in FY 2006 to have no future benefit; and 2) personnel costs increased during FY 2007.

## Bad Debt Expense

Bad debt expense is a function of the amount of loans receivable at year-end. The Fund's allowance for bad debts is equal to 25 percent of loans receivable. Loans receivable decreased during FY 2007 by $4.1 million, resulting in a decrease to the allowance for bad debts of $1 million (the amount of the allowance for bad debts is a function of the loan receivable balance). This decrease consisted of loans written off totaling $.6 million and the FY 2007 bad debt expense of $437,000.

## Shortage of Revenue and Financing Sources Under Expenses

As stated above, the amount of appropriated capital used (the largest component of the CDFI Fund's revenue) is, with certain adjustments, equal to the amount of operating expenses for the year. Accordingly, the shortage of revenue and other financing sources over expenses (the CDFI Fund's "net loss") will consist of the amount by which expenses not covered by budgetary resources exceeds revenue and financial sources other than appropriated capital used.

For FY 2007, expenses not covered by budgetary resources totaled $4.1 million, consisting of interest expense on Treasury borrowings of $2.4 million, $1.1 million of grants and loan subsidy disbursed from the CDFI Fund's no-year account, and $.6 million of loans written off during the year. The no-year account is a non-appropriated account consisting of interest income, dividend income, and proceeds from the redemption of equity investments, accumulated since CDFI Fund inception.

Revenue and financial sources other than appropriated capital used and imputed financing sources totaled $1.9 million consisting of interest and dividends of $1.7

million and a $.2 million realized gain on the disposition of investments. The excess of the $3.5 million of expenses not covered by appropriations exceeds the $1.9 million of revenue and financing sources other than appropriated capital by $1.6 million, representing the shortage of revenue and financing sources under expenses.

This page intentionally blank.

# Independent Auditors' Reports

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

## Independent Auditors' Report

Inspector General, U.S. Department of the Treasury, and the
Director, Community Development Financial Institutions Fund:

We were engaged to audit the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management.

We were unable to obtain appropriate representations from management of the Fund with respect to the accompanying financial statements as of and for the years ended September 30, 2007 and 2006. We cannot determine the effect of the lack of such representations on the Fund's financial position as of September 30, 2007 and 2006, or the results of its operations or its cash flows for the years then ended.

Because management of the Fund did not provide us with appropriate representations and we were unable to apply other auditing procedures to satisfy ourselves as to such representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements as of and for the years ended September 30, 2007 and 2006.

The information in the Fund's Program Discussion and Analysis section is presented for the purpose of additional analysis and is not a required part of the financial statements. We were unable to complete limited procedures over the Fund's Program Discussion and Analysis section because of the limitations on the scope of our audit described in the second and third paragraphs of our report. Certain information presented in the Program Discussion and Analysis section is based on fiscal year 2007 and 2006 financial statements on which we have not expressed an opinion. We did not audit this information and, accordingly, we express no opinion on it.

The information in the Community Development Financial Institutions Fund Overview, Status of Financial Management, and the information in the appendices is presented for purposes of additional analysis and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 14, 2007, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

KPMG LLP

November 14, 2007

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

## Independent Auditors' Report on Internal Controls

Inspector General, U.S. Department of the Treasury, and the
Director, Community Development Financial Institutions Fund:

We were engaged to audit the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management.

We were unable to obtain appropriate representations from management of the Fund with respect to the accompanying financial statements as of and for the years ended September 30, 2007 and 2006. We cannot determine the effect of the lack of such representations on the Fund's financial position as of September 30, 2007 and 2006, or the results of its operations or its cash flows for the years then ended.

Because management of the Fund did not provide us with appropriate representations and we were unable to apply other auditing procedures to satisfy ourselves as to such representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements as of and for the years ended September 30, 2007 and 2006, and we have issued our report thereon dated November 14, 2007 stating this.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Fund is responsible for establishing and maintaining effective internal control. In planning our fiscal year 2007 and 2006 audits, we considered the Fund's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

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 Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control over financial reporting. 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 Fund's internal control.

In our fiscal year 2007 audit, we considered the deficiencies, described below, to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described below are material weaknesses. Exhibit I presents the status of prior year reportable conditions.

As discussed above, the scope of our work was not sufficient to express an opinion on the statements of financial position of the Fund as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended, and accordingly, other internal control matters may have been identified and reported had we been able to perform all procedures necessary to express an opinion on those financial statements.

**Significant Deficiencies**

***Improving Communications and Team Building***

Members of management of the Fund are not communicating effectively with each other. Certain issues/concerns are known by certain members of management and not known by others. Certain systems (for example, the Report Monitoring System) are available tools at the Fund, but not everyone who needs to, completely understands the systems and how they can properly be used to benefit of the entire organization. When issues are brought up, discussed, and resolved, in some cases, the ultimate resolution is not communicated to all parties involved. This has been exhibited with the difficulties in management agreeing to the controls over the awards system. The cause may be the lack of communication in keeping all parties informed and the inability to work cohesively. The lack of communication could be attributable to a need for clearer lines of roles and responsibilities among the Fund offices. The inability to work as a cohesive team has resulted in inhibited communications among members of Fund management, resulting in functions such as award monitoring not being carried out as effectively and efficiently as it could be.

**Recommendations**

The Fund should consider Communications and/or Team Building Training to improve communications in its management group. The Fund should also re-evaluate the roles and responsibilities of each of its offices to ensure the functions are in line with the responsibilities of that office, and the award monitoring responsibilities are being carried out in the most efficient and effective manner. In addition, the Fund should ensure its weekly management group meetings serve to:

a. convey information to all members of management,
b. identify concerns at an early stage,
c. enable management to develop teams to resolve the concerns, and
d. present a forum for management to report back to the entire management group on issue resolution.

**Management's Response**

We agree that clearly defined and documented office roles and responsibilities would help the Fund to carry out its mission in a more efficient manner. We will also ensure that the weekly management group meetings address the areas identified above.

***Improvements Needed in Controls over Awards Monitoring***

The Fund has not developed sufficient procedures to determine if awardees are in compliance with the terms of their assistance agreements when they fail to submit annual information, as required by the award agreements. Specifically, while the Fund has a process in place which requires the submission of annual information, including Single Audit reports, if required, used to monitor awardees compliance with the terms of their assistance awards, it does not adequately monitor the receipt of this information. In addition, the Fund does not follow-up on issues addressed by the information received. Accordingly, this could result in awardees using Federal funds inconsistently with the objectives of the grant; programs and resources may not be protected from waste, fraud, and mismanagement; laws and regulations may not be followed; excess funds not spent may not be returned; and reliable and timely information may not be obtained, maintained, reported, or used for decision-making.

In addition, we noted that for loans, while the Fund does require the related awardees to provide required information during the term of the assistance agreement, the Fund does not properly monitor the awardees' reporting to determine if they are submitting their required information in a timely manner, in accordance with the assistance agreements. The Fund does not have a formal, written policy on the requirements for follow-up with awardees that do not submit their required information. The Fund currently doesn't use these financial statements as part of its process in evaluating awardee ability to continue to make loan payments. The maintenance and continual monitoring of current financial information for awardees that the Fund has provided loans to is essential for the Fund to ensure the continued viability of these awardees and thus, the ultimate collectibility of these loans.

**Recommendations**

We recommend that the Fund follow the procedures as stated in their Compliance Monitoring and Reporting Policies for all awardees. The Fund should improve its compliance and monitoring procedures to implement a process that specifically identifies awardee responsibilities for complying with these reporting requirements each year and the specific follow-up procedures that should be performed and documented.

Management should establish procedures that are designed to ensure that all loan awardees provide the Fund with all of the information required by their assistance agreement. Management should implement procedures that are designed to notify the awardees when this information is not received in a timely manner and the consequence of being non-compliant with the Assistance Agreement. Management should also include the awardee required information in its process to evaluate the ability of an awardee to repay its loan obligation to the Fund.

**Management's Response**

The Fund disagrees with KPMG's statement that the Fund has not developed sufficient procedures to determine if awardees are in compliance with the terms of their assistance agreements when they fail to submit annual information, as required by the award agreements. The Fund's policy is to identify and then contact Awardees with overdue reports. It has several means to identify such Awardees and subsequently collect those reports.

The Fund also disagrees with KPMG's statement that the Fund does not follow-up on issues addressed by the information received. It is the Fund's policy to review all report information submitted by Awardees. Each received report is reviewed by a Fund Compliance analyst who compares actual performance against the required performance found in the assistance agreement. All instances of non-compliance are addressed via a formal memo to make a final compliance determination.

**KPMG Conclusion**

The conditions above were identified during our testing of Fund awards. We were not provided sufficient documentation to support that the Fund complied with its monitoring policies.

The Fund's responses to the findings identified are presented above. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

**INTERNAL CONTROLS OVER PERFORMANCE MEASURES**

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Program Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. Based on our procedures, no deficiencies in the design of internal control over the existence and completeness assertions related to key performance measures were noted that we consider to be material weaknesses as defined above.

As discussed above, the scope of our work was not sufficient to express an opinion on the statement of financial position of the Fund as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended, and accordingly, internal control matters over performance measures may have been identified and reported had we been able to perform all procedures necessary to express an opinion on those financial statements.

This report is intended solely for the information and use of the Fund's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2007

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

## Independent Auditors' Report on Compliance and Other Matters

Inspector General, U.S. Department of the Treasury, and the
Director, Community Development Financial Institutions Fund:

We were engaged to audit the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management.

We were unable to obtain appropriate representations from management of the Fund with respect to the accompanying financial statements as of and for the years ended September 30, 2007 and 2006. We cannot determine the effect of the lack of such representations on the Fund's financial position as of September 30, 2007 and 2006, or the results of its operations or its cash flows for the years then ended.

Because management of the Fund did not provide us with appropriate representations and we were unable to apply other auditing procedures to satisfy ourselves as to such representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements as of and for the years ended September 30, 2007 and 2006, and we have issued our report thereon dated November 14, 2007 stating this.

The management of the Fund is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of the Fund's 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 the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. Our audit procedures were not designed to test the requirements of OMB Bulletin No. 07-04 relating to the *Federal Financial Management Improvement Act of 1996* (FFMIA), which are not considered applicable at the Fund level, but we did apply limited procedures to aid in the determination of compliance as part of the financial statement audit of the U.S. Department of the Treasury. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Fund. 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 of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04. However, we did note one "Other Matter" which is described below.

## OTHER MATTER

The Chief Financial Officer of the Fund did not sign the management representation letter with respect to the accompanying financial statements due to her concerns about potential internal control matters in the operation of the awards programs of the Fund, resulting in her inability to have complete assurance that the Fund's programs are not free from waste, fraud, and mismanagement.

As discussed above, the scope of our work was not sufficient to express an opinion on the statement of financial position of the Fund as of September 30, 2007 and 2006, and the related statements of operations and changes in net position and cash flows for the years then ended, and accordingly, other instances of non-compliance with laws, regulations, contracts, and grant agreements may have been identified and reported had we been able to perform all procedures necessary to express an opinion on those financial statements.

This report is intended solely for the information and use of the Fund's management, the U.S. Department of the Treasury's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2007

**Community Development Financial Institutions Fund**

**Status of Fiscal Year 2006 Reportable Conditions**

**As of September 30, 2007**

***Software-in-Development***

In performing procedures over the Software-in-Development asset account, we noted that CDFI Fund management:

- had capitalized maintenance costs of $2.5 million that per SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, should be expensed when incurred;

- had not transferred completed projects of $538 thousand from the "in-development" account to the capitalized software account at the time such projects were considered completed; and

- had not recognized the $172 thousand of amortization costs of these projects over their estimated useful life.

Had there been a process in place whereby the Fund Manager and Chief Information Officer (CIO) met on an ongoing basis to discuss software costs, the above issue could have been identified.

**Recommendations**

We recommend that the Fund Manager and CIO (or their designees) meet at least quarterly to discuss the status of costs incurred for the Software-in-Development account, including identifying when such costs will result in a completed software module to be placed in service. The meetings should also discuss any prior software costs to ensure that the dates such costs are to be placed in service are still valid.

**FY 2007 Status**

Based on 2007 audit procedures, this recommendation has been adequately addressed and can be considered closed.

***Grants Monitoring***

Our audit revealed that even though the Fund has a system of awards management over its pre-award and award phases, the Fund has not developed sufficient procedures to determine if grant funds have been spent in accordance with their award agreements when awardees fail to submit annual information, including Single Audit reports. Specifically, while the Fund has a process in place which requires the submission of annual information, including Single Audit reports, used to monitor awardees compliance with the terms of their assistance awards, it does not adequately monitor the receipt of this information. Accordingly, this could result in awardees' using Federal funds inconsistent with the objectives of the grant; programs and resources may not be protected from waste, fraud, and mismanagement; laws and regulations may not be followed; excess funds not spent may not be returned; and reliable and timely information may not be obtained, maintained, reported, or used for decision-making.

**Recommendations**

We recommend that the Fund improve post-award monitoring, which will help ensure compliance with the requirements of *Single Audit Act Amendments of 1996*, by:

- developing a policy where sanctions are applied to awardees past due in submitting any component of their annual information, including Single Audit reports, in order to comply with OMB Circular A-133, and

- increasing the resources dedicated to post-award monitoring; this should include increasing the number of professionals fully focused on post-award monitoring and performing more desk reviews of information from the grantees on how the funds received were utilized and to recover unused granted funds, as necessary.

**FY 2007 Status**

Based on our 2007 procedures, the condition noted above continued to exist. Therefore, this is being repeated in the Significant Deficiencies section of our Fiscal Year 2007 Independent Auditors' Report on Internal Controls.

# Financial Statements and Notes

# Community Development Financial Institutions Fund
# Statements of Financial Position
# As of September 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Fund balance with Treasury (Note 2) | $ 59,535,767 | $ 59,458,807 |
| Advances and prepayments | 781,050 | 1,051,723 |
| Loans receivable, net of allowance for bad debts of $772,800 in 2007 and $1,391,688 in 2006 | 2,318,400 | 4,175,063 |
| Investments (Note 3) | 75,000 | 100,000 |
| Interest receivable | 584,834 | 516,983 |
| Other receivables | 18,506 | - |
| Total current assets | 63,313,557 | 65,302,576 |
| Long-term assets: | | |
| Loans receivable, net of allowance for bad debts of $14,866,789 in 2007 and $15,283,024 in 2006 | 44,600,366 | 45,849,073 |
| Investments, net of fair value adjustments of $5,406,326 in 2007 and $4,897,220 in 2006 (Note 3) | 34,161,359 | 32,636,249 |
| Internal-use software, net of accumulated amortization of $2,260,486 in 2007 and $1,636,593 in 2006 | 2,106,768 | 2,730,661 |
| Total long-term assets | 80,868,493 | 81,215,983 |
| Total assets | $ 144,182,050 | $ 146,518,559 |
| **Liabilities and Net Position** | | |
| Current liabilities: | | |
| Accounts payable | $ 350,651 | $ 542,570 |
| Awards payable | 9,325,573 | 2,161,241 |
| Accrued payroll | 239,704 | 200,115 |
| Accrued annual leave | 309,834 | 267,404 |
| Total current liabilities | 10,225,762 | 3,171,330 |
| Long-term liabilities: | | |
| Debt (Note 4) | 41,901,850 | 45,511,849 |
| Awards payable | 4,021,591 | 3,295,705 |
| Total long-term liabilities | 45,923,441 | 48,807,554 |
| Total liabilities | 56,149,203 | 51,978,884 |
| Commitments (Note 5) | | |
| Net position (Note 6) | 88,032,847 | 94,539,675 |
| Total liabilities and net position | $ 144,182,050 | $ 146,518,559 |

The accompanying notes are an integral part of these statements

## Community Development Financial Institutions Fund
## Statements of Operations and Changes in Net Position
## Years Ended September 30, 2007 and 2006

| | | 2007 | | 2006 |
|---|---|---|---|---|
| **Revenue and financing sources:** | | | | |
| Appropriated capital used | $ | 56,558,832 | $ | 57,431,347 |
| Imputed financing sources- expenses paid by others (Note 8) | | 530,728 | | 478,247 |
| Interest, non-federal | | 1,343,199 | | 1,275,509 |
| Interest, federal | | 128,981 | | 248,342 |
| Dividends | | 251,722 | | 270,852 |
| Realized gain on disposition of investments | | 154,118 | | 118,781 |
| Total revenue and financing sources | | 58,967,580 | | 59,823,078 |
| **Expenses:** | | | | |
| CDFI grants | | 34,248,315 | | 33,287,740 |
| BEA grants | | 9,620,922 | | 10,337,645 |
| Administrative (Note 10) | | 13,781,097 | | 15,433,520 |
| Bad debt expense (gain) | | (437,299) | | 1,147,331 |
| Administrative expenses paid by others (Note 8) | | 530,728 | | 478,247 |
| Total operating expenses | | 57,743,763 | | 60,684,483 |
| Treasury borrowing interest | | 2,344,795 | | 2,799,199 |
| Unrealized loss on investments | | 509,106 | | 1,500,000 |
| Total expenses | | 60,597,664 | | 64,983,682 |
| Shortage of revenue and financing sources under expenses (Note 9) | $ | (1,630,084) | $ | (5,160,604) |
| **Changes in net position:** | | | | |
| Net position, beginning of year | $ | 94,539,675 | $ | 107,532,735 |
| Shortage of revenue and financing sources under expenses | | (1,630,084) | | (5,160,604) |
| Other changes (Note 7) | | (4,876,744) | | (7,832,456) |
| Net position, end of year | $ | 88,032,847 | $ | 94,539,675 |

The accompanying notes are an integral part of these statements

## Community Development Financial Institutions Fund
## Statements of Cash Flows
## Years Ended September 30, 2007 and 2006

| | | 2007 | | 2006 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Shortage of revenue and financing sources | | | | |
| under expenses | $ | (1,630,084) | $ | (5,160,604) |
| Adjustments affecting cash flow: | | | | |
| Bad debt (gain) expense | | (437,299) | | 1,147,331 |
| Appropriated capital used | | (56,558,832) | | (57,431,347) |
| Realized gain on disposition of investments | | (154,118) | | (118,781) |
| Unrealized loss on investments | | 509,106 | | 1,500,000 |
| Proceeds from disposition of investments | | 219,902 | | 486,834 |
| Amortization expense | | 623,893 | | 712,331 |
| Write-off of internal-use software in development | | - | | 2,505,341 |
| Decrease (increase) in advances and prepayments | | 270,673 | | (320,397) |
| Increase in investment in awardees | | (2,075,000) | | - |
| Increase in interest receivable | | (67,851) | | (233,512) |
| Increase in other receivables | | (18,506) | | - |
| Decrease in accounts payable and accrued payroll | | (152,330) | | (95,103) |
| Increase (decrease) in awards payable | | 7,890,218 | | (5,262,967) |
| Increase in accrued annual leave | | 42,430 | | 21,798 |
| Net cash used by operating activities | | (51,537,798) | | (62,249,076) |
| **Cash flows from investing activities:** | | | | |
| Acquisition of internal-use software | | - | | (329,433) |
| Loans disbursed | | (995,000) | | (6,957,528) |
| Collection of loan principal | | 4,537,669 | | 2,368,206 |
| Net cash provided (used) by investing activities | | 3,542,669 | | (4,918,755) |
| **Cash flows from financing activities:** | | | | |
| Appropriations received | | 55,454,434 | | 55,000,000 |
| Appropriations cancelled | | (3,456,953) | | (3,363,017) |
| Appropriations rescinded | | - | | (550,000) |
| Borrowings from Treasury | | 1,390,524 | | 7,574,474 |
| Subsidy repayments to Treasury | | (315,393) | | (1,488,092) |
| Loan payments to Treasury | | (5,000,523) | | (2,624,516) |
| Net cash provided by financing activities | | 48,072,089 | | 54,548,848 |
| Net change in Fund balance with Treasury | | 76,960 | | (12,618,982) |
| Fund balance with Treasury, beginning of year | | 59,458,807 | | 72,077,789 |
| Fund balance with Treasury, end of year | $ | 59,535,767 | $ | 59,458,807 |

The accompanying notes are an integral part of these statements

# Notes to Financial Statements
September 30, 2007 and 2006

**(1) Summary of Significant Accounting Policies**

***(a) Reporting Entity***

The Community Development Financial Institutions Fund (the Fund) was created as a bipartisan initiative in the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law No. 103-325). The Fund was placed in the Department of the Treasury and began operations in July 1995.

The Fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The Fund is intended to help create a national network of financial institutions dedicated to community development that leverages private resources (financial and human) to address community development needs.

The major programs operated by the Fund are the Community Development Financial Institutions Program (consisting of a Financial Assistance and Technical Assistance Component), the New Markets Tax Credit Program, the Bank Enterprise Awards Program, and Native American Initiatives.

The Community Development Financial Institutions (CDFI) Program provides financial and technical assistance awards to certified community development financial institutions (CDFIs) which in turn provide services to create community development impact in underserved markets. Financial assistance awards take the form of grants, direct loans, and equity investments. Technical Assistance grants provide assistance to start-up and early-stage CDFIs and entities planning to become CDFIs.

The Fund implemented the New Markets Tax Credit (NMTC) Program during fiscal year 2002. Under this program, the Fund provides an allocation of tax credits to Community Development Entities (CDEs), which use these credits to attract private sector investment. Proceeds from these investments are used for community development purposes. Unlike the Fund's grant programs, the allocation of tax credits to CDEs has no effect on the financial statements of the Fund.

The Bank Enterprise Awards (BEA) Program provides incentives to insured depository institutions (banks and thrifts) to invest in CDFIs and to increase their lending and financial services in distressed communities. Program participants are selected based on projected achievements. The awards are disbursed only after the activities have been implemented successfully, to ensure that only completed activities are recognized and that the Fund's limited dollars are effectively leveraged with private capital.

Through Native American Initiatives, the CDFI Fund provides grants to help create CDFI's and to build the capacity of existing Native CDFIs that serve primarily Native American, Alaska Native, and Native Hawaiian communities.

***(b) Basis of Presentation***

The American Institute of Certified Public Accountants (AICPA) has designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal governmental entities, with respect to the establishment of accounting principles generally accepted in the United States of America. FASAB has indicated that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with generally accepted accounting principles for those federal entities, such as the Fund, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Fund financial statements are presented in accordance with accounting standards published by the FASB.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

### *(c) Fund Balance with Treasury*

The Fund does not maintain cash in commercial bank accounts. The U.S. Department of the Treasury (Treasury Department) processes cash receipts and disbursements. Fund Balance with Treasury is composed primarily of appropriated and borrowed funds (financing and program accounts) that are available to pay liabilities and finance authorized award and purchase commitments.

### *(d) Fair Value of Financial Instruments*

The fair value of the Fund's financial instruments was determined as discussed below:

#### *1) Fund Balance with Treasury*

The carrying amount approximates fair value for Fund balance with Treasury because of the liquid nature of the funds with Treasury.

#### *2) Loans Receivable and Debt*

The carrying amount of loans receivable and debt approximates fair value because the related interest rates approximate current rates for similar loans and debt.

#### *3) Investments*

None of Fund's investments are in publicly traded entities for which a share price can be readily obtained; accordingly, the Fund estimated the fair value of investments as follows:

- Non-voting equity securities and limited partnership interest – Several factors were considered in estimating fair value for these investments, including, the cost of the investment, developments since the acquisition of the investment, the financial condition and operating results of the investee per their financial statements, the long-term potential of the business, recent share or unit prices paid, and other factors generally pertinent to the valuation of investments.

  The Fund, in making its evaluation, has relied on financial data of awardees and, in many instances, on estimates by the management of the awardees as to the potential effect of future developments.

- Convertible debt securities – Fair values were estimated using the same methodology as used for non-voting equity securities described above, based on the assumption that the securities were converted into stock.

- Secondary capital securities – These investments have terms similar to loans, and accordingly fair values were estimated by discounting future projected cash flows at the Treasury rate of securities with similar maturities.

- Certificates of deposit – The carrying amount approximates fair value because of the liquid nature of the investments.

*4) Advances and Prepayments, Interest Receivable, Other Receivables, and Other Liabilities*

The carrying amount of advances and prepayments, interest receivable, other receivables, and other liabilities approximate fair value as they represent the amounts expected to be realized or paid.

***(e) Loans Receivable***

The Fund provides assistance by making direct loans to certain CDFI Program awardees. Loans are reported as receivables when disbursed, reduced by a 25% default allowance. The Office of Management and Budget negotiated a 25% default allowance with the Fund to estimate future losses if adequate historical information is not available. Historical information is not available, and will not be available for some time due to the following: 1) the majority of loans made by the Fund require either balloon payments at maturity, or principal payments commencing shortly before the maturity date; and 2) most of these loans have not yet matured (the maturity date of a small number has been extended). The borrowers, in accordance with the repayment schedules, have made timely interest and principal payments and there have been a minimal amount of write-offs to date.

***(f) Interest Receivable***

Interest is accrued on the outstanding loans receivable principal balances and investments based on stated rates of interest.

***(g) Investments***

The Fund provides assistance to certain for-profit CDFI program awardees by purchasing non-voting equity and convertible debt securities and to Federal credit union awardees by purchasing certificates of deposit and by providing secondary deposits. Investments in CDFI program and Federal credit union awardees are stated at fair value.

In the event the Fund's evaluation results in an adjustment to fair value, an unrealized gain or loss is recorded and the investment balance is adjusted accordingly.
The Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. The Fund considers convertible subordinated debentures to be equity investments because they exhibit sufficient characteristics of equity securities. For example, convertible subordinated debentures entitle the Fund to any dividends in the non-voting common stock into which it is convertible as if the Fund had converted the debentures into such stock prior to the declaration of the dividend.

***(h) Internal-Use Software***

Internal-use software represents the completed phases of various software placed in service pertaining to 1) processing applications – this software automates the award application submission process; 2) geocoding – web-based software that geocodes addresses, map census tracts and counties, and enables applicants to determine the funding eligibility of census tracts and counties under CDFI's various programs; and 3) the Community Investment Impact System (CIIS) – a web-based data collection system for CDFI's and Community Development Entities.

The software is amortized using the straight-line method over the estimated useful life of seven years. Amortization expense for the years ended September 30, 2007 and 2006 was $623,893 and $712,331, respectively.

During fiscal year 2006, the Fund determined that $2.5 million of internal-use software in development as of September 30, 2005 was not going to have a future benefit, and so was charged off to operations with a corresponding recognition of appropriated capital used. There is no internal-use software in development as of September 30, 2007 and 2006.

***(i) Awards Payable***

CDFI Program grant expense is recognized and awards payable are recorded when the fund is made aware, in writing, that the awardee has met the conditions required for payment and the Fund approves a grant disbursement to be made. BEA Program grant expense is recognized and awards payable are recorded when the Fund approves the BEA award to be made (i.e. at the time the funds are obligated).

The current and long-term portions of awards payable represent amounts estimated to be paid within the next twelve months (current portion) and thereafter (long-term portion) based on prior award payment experience.

***(j) Retirement Plans***

CDFI Fund employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983.

Employees hired prior to January 1, 1984, were provided an opportunity to join either FERS and Social Security or remain in CSRS.

For all employees, a Thrift Savings Plan (TSP) account is automatically established, and the employee can have up to a predetermined maximum amount withheld from their base salary, which is deposited into their TSP account. For FERS employees only, the Fund makes matching contributions ranging from 1% to 4% for employees who contribute to their TSP account (there is no matching contribution for CSRS employees).

In addition, CDFI Fund employees participating in CSRS have 7% of their base salary withheld which is contributed into a Retirement Fund. The Fund contributes the same amount into the Retirement Fund.

FERS employees and CSRS reinstatement employees are eligible to participate in the Social Security program for retirement. In these instances, the Fund remits the employer's share of the required contribution.

***(k) Annual, Sick and Other Leave***

Annual leave and compensatory leave is accrued as a liability when earned by the employee, and the accrual is reduced as leave is taken. The balance in this accrued liability account is computed using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

***(l) Debt***

Debt represents borrowings payable to the Treasury Department that were made to fund direct loans made by the CDFI Program. Principal repayments to the Treasury Department are required to be made based on the collections of loans receivable.

***(m) Contingencies***

The Fund also had employment related cases (e.g., discrimination, Equal Employment Opportunity Commission, etc.) in which a loss may be reasonably possible, but for which a range of potential loss could not be determined.

### *(n) Revenue and Financing Sources*

The Fund receives the majority of its funding through appropriations from the U.S. Congress. The Fund receives two-year appropriations that may be used, within statutory limits, for awards and operating expenses. Appropriations are recognized as revenues at the time the Fund's grants are recorded as expenses, and when administrative expenses and provision for bad debts covered by budgetary resources are incurred.

Occasionally, the Fund receives dividends on its equity investments and may use those funds for awards and operating expenses.

Additional revenue is obtained from interest received on direct loans to the public and on uninvested funds in the direct loan financing account held by the Treasury Department.

### *(o) Tax Status*

The Fund, as a government entity, is not subject to federal, state, or local income taxes and, accordingly, no provision for income tax is recorded.

### *(p) Use of Estimates*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

## (2) Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2007 and 2006 consisted of the following components:

| | 2007 | 2006 |
|---|---|---|
| Available | $ 2,885,074 | $ 2,075,642 |
| Obligated | 54,796,049 | 54,798,076 |
| Expired | 1,854,644 | 2,585,089 |
| | $ 59,535,767 | $ 59,458,807 |

Fund balance with Treasury includes appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments.

## (3) Investments

Investments relate to capital provided to CDFI Program awardees and consist of the following as of September 30, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Investments, at Cost | | |
| Non-voting equity securities | $ 28,554,820 | $ 26,479,820 |
| Convertible debt securities | 2,573,882 | 2,573,882 |
| Secondary capital securities | 5,000,000 | 5,000,000 |
| Limited partnership interest | 3,288,983 | 3,354,767 |
| Certificates of deposit | 225,000 | 225,000 |
| Investments, at cost | 39,642,685 | 37,633,469 |
| Reserve for unrealized losses | | |
| Non-voting equity securities | (4,050,000) | (4,000,000) |
| Convertible debt securities | (459,106) | - |
| Limited partnership interest | (897,220) | (897,220) |
| Total reserve for unrealized losses | (5,406,326) | (4,897,220) |
| Investments, at fair value | $ 34,236,359 | $ 32,736,249 |

Non-voting equity securities consist of non-voting common stock held in for-profit CDFI Program awardees (preferred non-voting stock is held in two awardees).

Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2007 and 2006, one debenture of $2 million matures January 2048 with the option to convert into 200,000 shares of non-voting class B common stock at a $10 per share conversion price.

The other convertible debt security is with a bank holding company that is in the process of negotiating a sale of its assets. The original amount of the security is $573,882; however, the amount to be received by the Fund is contingent upon the selling price of the holding company assets and the outcome of discussions (expected to be completed during FY 2008) regarding amounts that the related debt holders will accept in full payment of their debt (including that which is held by the Fund).

The Limited Partnership interest consists of a Class B limited partnership interest in Sustainable Jobs Fund, LP, an interest in Pacific Community Ventures, and three units of preferred interest in Shorebridge Capital LLC.

Secondary capital securities consist of investments that cannot be redeemed prior to scheduled redemption dates.

Certificates of deposits are investments in federal credit union awardees, and have interest rates ranging from 0 percent to 2 percent.

Investments included as current assets represent certificates of deposit that mature within the next twelve months.

## (4) Debt

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2007 and 2006:

| | | 2007 | | 2006 |
|---|---|---|---|---|
| Beginning balance | $ | 45,511,849 | $ | 40,561,891 |
| New borrowings | | 1,390,524 | | 7,574,474 |
| Repayments | | (5,000,523) | | (2,624,516) |
| Ending balance | $ | 41,901,850 | $ | 45,511,849 |

The earliest principal repayment due date to Treasury is September 30, 2009. Principal payments on this debt as of September 30, 2007 are as follows:

| Fiscal Year | Principal Payments |
|---|---|
| 2009 | $1,318,162 |
| 2010 | 2,188,709 |
| 2011 | - |
| 2012 | 652,006 |
| 2013 | 3,121,109 |
| Thereafter | 34,621,864 |
| | $41,901,850 |

During fiscal year 2007, the Fund borrowed $1,027,553 to finance current year direct loan commitments and $362,971 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.55% to 6.48%, depending on maturity dates or risk categories. The Fund repaid $5,000,523 in principal to the U.S. Treasury from collections of loans receivable.

During fiscal year 2006, the Fund borrowed $7,026,103 to finance current year direct loan commitments and $548,371 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.55% to 5.47%, depending on maturity dates or risk categories. The Fund repaid $2,624,516 in principal to the U.S. Treasury from collections of loans receivable and deobligation of a previous loan obligation.

Interest paid for the years ended September 30, 2007 and 2006 was $2,344,796 and $2,799,199, respectively.

## (5) Commitments

### *(a) Operating Leases*

The Fund leases office space from the General Services Administration in the Homer Building located in Washington, D.C. under the terms of an operating lease (renewed in FY 2007) which expires in January 2012. The Fund also leases equipment under the terms of an operating lease. The total operating lease expense was $1,365,792 and $1,350,395 for the years ended September 30, 2007 and 2006, respectively.

Future minimum payments due under these operating leases as of September 30, 2007 were as follows:

| Fiscal Year | Minimum lease payments |
|---|---|
| 2008 | $1,175,582 |
| 2009 | 1,402,533 |
| 2010 | 1,353,060 |
| 2011 | 1,353,060 |
| 2012 | 479,208 |
| | $5,763,443 |

FY 2008 minimum lease payments include the effect of forgiveness of two months of rent, negotiated as part of the lease renewal.

### *(b) Award and Purchase Commitments*

As of September 30, 2007 and 2006, award commitments amounted to $38,304,553 and $39,112,608, respectively. Award commitments relate to CDFI Program and Native Initiative Program awards which were approved by Fund management but not disbursed as of the end of the year. These award commitments are not considered liabilities at year-end because the awardees have not met the conditions required for payment. Award commitments pertaining to the Bank Enterprise Award (BEA) Program of $13,347,164 and $5,456,946 as of September 30, 2007 and 2006, respectively, are excluded from these amounts since they are reflected as liabilities on the Fund's balance sheet.

Purchase commitments of $4,353,444 and $10,757,159 as of September 30, 2007 and 2006, respectively, relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

## (6) Net Position

Net position as of September 30, 2007 and 2006 consisted of the following:

| | **2007** | **2006** |
|---|---|---|
| Unexpended appropriations: | | |
| Unobligated available | $ 14,394,542 | $ 13,820,167 |
| Unobligated expired | 1,854,644 | 2,585,089 |
| Undelivered orders | 41,061,091 | 47,896,471 |
| Total unexpended appropriations | 57,310,277 | 64,301,727 |
| Cumulative results of operations | 30,722,570 | 30,237,948 |
| | $ 88,032,847 | $ 94,539,675 |

**(7) Other Changes in Net Position**

Other changes in net position for the years ended September 30, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| Appropriations received | $ 54,505,779 | $ 55,000,000 |
| Appropriation for Subsidy Reestimate | 948,655 | - |
| Appropriation Cancelled | (3,456,953) | (3,363,017) |
| Appropriation Rescinded | - | (550,000) |
| Appropriation Used | (56,558,832) | (57,431,347) |
| Downward Reestimate Adjustment | (315,393) | (1,488,092) |
| Total other changes in net position, net | $ (4,876,744) | $ (7,832,456) |

**(8) Imputed Financing**

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing for the years ended September 30, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Pension Cost (CSRS Retirement Plan) | $ 63,497 | $ 48,894 |
| Pension Cost (FERS Retirement Plan) | (3,221) | 14 |
| Health Insurance (Health Benefits Program) | 257,705 | 226,154 |
| Life Insurance (Group Life Insurance Program) | 791 | 722 |
| Audit Fees | 211,956 | 202,463 |
| Total | $ 530,728 | $ 478,247 |

**(9) Shortage of Revenue and Financing Sources Under Expenses**

The shortage of revenue and financing sources under expenses for fiscal year 2007 and 2006 includes $1,139,363 and $4,252,113, respectively, of grants and subsidies that were funded from the Fund's no-year account. The no-year account consists of the proceeds from the redemption of investments (see note 3 for a description of the types of investments) as well as income received from these investments.

Pursuant to the Fund's authorizing legislation, the no-year account can be used to fund new awards. Unlike Fund awards that are made out of appropriated funds (which serve to increase grant expenses as well as appropriated capital used and so have no effect on the shortage of revenue and financing sources under expenses), awards funded from the no-year account only affect grant expenses, and so serve to increase the shortage of revenue and financing sources under expenses. Because such amounts funded from the no-year account were significantly lower in fiscal year 2007 than in fiscal year 2006, the shortage of revenue and financing sources under expenses for fiscal year 2007 is significantly lower than in fiscal year 2006.

**(10) Administrative Expenses**

Administrative expenses consist of the following for the years ended September 30, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Personnel compensation and benefits | $ 5,819,004 | $ 5,763,075 |
| Travel | 258,618 | 208,637 |
| Rent | 1,603,348 | 1,542,237 |
| Contractual services | 4,774,550 | 4,428,911 |
| Write-off of software in development (note 1h) | — | 2,548,174 |
| Information technology systems maintenance | 490,811 | 144,228 |
| Amortization | 623,893 | 712,331 |
| Supplies and printing | 168,697 | 64,079 |
| Other | 42,176 | 21,848 |
| Total | $ 13,781,097 | $ 15,433,520 |

# Appendices

# Appendix A
## FY 2007 CDFI Fund Award and Allocation Activities

| STATE | FA Awards Number | FA Awards Amount | TA Awards Number | TA Awards Amount | NI Awards Number | NI Awards Amount | BEA Awards Number | BEA Awards Amount | Total Awards Number | Total Awards Amount | Allocation of New Markets Tax Credits (1) Number | Allocation of New Markets Tax Credits (1) Amount |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Alabama | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Alaska | - | $0 | - | $0 | 1 | $100,345 | - | $0 | 1 | $100,345 | - | $0 |
| Arizona | - | $0 | - | $0 | 1 | $140,263 | - | $0 | 1 | $140,263 | - | $0 |
| Arkansas | 2 | $924,411 | 1 | $80,222 | - | $0 | - | $0 | 3 | $1,004,633 | - | $0 |
| California | 4 | $3,254,500 | 2 | $168,640 | 1 | $118,772 | 4 | $1,623,782 | 11 | $5,165,694 | 5 | $224,000,000 |
| Colorado | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | 1 | $60,000,000 |
| Connecticut | 1 | $320,605 | - | $0 | - | $0 | - | $0 | 1 | $320,605 | - | $0 |
| Delaware | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| District of Columbia | 3 | $2,038,219 (2) | - | $0 | - | $0 | - | $0 | 3 | $2,038,219 | 3 | $215,000,000 |
| Florida | 1 | $586,800 | - | $0 | - | $0 | 1 | $500,000 | 2 | $1,086,800 | - | $0 |
| Georgia | - | $0 | - | $0 | - | $0 | 2 | $360,199 | 2 | $360,199 | 2 | $160,000,000 |
| Hawaii | - | $0 | 2 | $197,141 | - | $0 | - | $0 | 2 | $197,141 | - | $0 |
| Idaho | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Illinois | 3 | $1,561,994 | 2 | $121,634 | - | $0 | 9 | $3,044,830 | 14 | $4,728,458 | 1 | $60,000,000 |
| Indiana | - | $0 | - | $0 | - | $0 | 4 | $27,537 | 4 | $27,537 | - | $0 |
| Iowa | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Kansas | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Kentucky | - | $0 | 1 | $98,465 | - | $0 | 17 | $472,918 | 18 | $571,383 | 1 | $45,000,000 |
| Louisiana | 3 | $1,960,637 | - | $0 | - | $0 | - | $0 | 3 | $1,960,637 | 5 | $218,000,000 |
| Maine | - | $0 | - | $0 | 1 | $138,876 | - | $0 | 1 | $138,876 | 1 | $120,000,000 |
| Maryland | 1 | $860,000 | - | $0 | - | $0 | - | $0 | 1 | $860,000 | 4 | $247,000,000 |
| Massachusetts | 1 | $367,523 | - | $0 | - | $0 | 1 | $500,000 | 2 | $867,523 | 1 | $66,000,000 |
| Michigan | - | $0 | 1 | $79,560 | 1 | $149,991 | - | $0 | 2 | $229,551 | 1 | $15,000,000 |
| Minnesota | 3 | $691,293 | 1 | $72,867 | 2 | $352,650 | 2 | $1,000,000 | 8 | $2,116,810 | 1 | $85,000,000 |
| Mississippi | 1 | $480,000 | - | $0 | - | $0 | 1 | $500,000 | 2 | $980,000 | 1 | $20,000,000 |
| Missouri | - | $0 | - | $0 | - | $0 | 1 | $489,169 | 1 | $489,169 | 5 | $290,000,000 |
| Montana | - | $0 | 1 | $64,875 | 1 | $149,760 | - | $0 | 2 | $214,635 | - | $0 |
| Nebraska | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Nevada | 1 | $314,952 | - | $0 | - | $0 | - | $0 | 1 | $314,952 | - | $0 |
| New Hampshire | 1 | $480,000 | - | $0 | - | $0 | - | $0 | 1 | $480,000 | - | $0 |
| New Jersey | 2 | $961,064 | - | $0 | - | $0 | - | $0 | 2 | $961,064 | 3 | $115,000,000 |
| New Mexico | - | $0 | 1 | $68,069 | - | $0 | - | $0 | 1 | $68,069 | 1 | $110,000,000 |
| New York | 6 | $2,624,353 | 2 | $125,897 | - | $0 | 1 | $500,000 | 9 | $3,250,250 | 8 | $620,000,000 |
| North Carolina | 4 | $2,510,341 | - | $0 | 2 | $806,146 | - | $0 | 6 | $3,316,487 | 2 | $197,000,000 |
| North Dakota | - | $0 | - | $0 | 1 | $117,987 | - | $0 | 1 | $117,987 | - | $0 |
| Ohio | 1 | $305,298 | 1 | $98,884 | - | $0 | 1 | $12,000 | 3 | $416,182 | 5 | $340,000,000 |
| Oklahoma | - | $0 | - | $0 | 1 | $606,218 | - | $0 | 1 | $606,218 | - | $0 |
| Oregon | - | $0 | - | $0 | - | $0 | 1 | $500,000 | 1 | $500,000 | 1 | $65,000,000 |
| Pennsylvania | 3 | $1,942,500 | 2 | $140,535 | - | $0 | 1 | $60,000 | 6 | $2,143,035 | 1 | $60,000,000 |
| Puerto Rico | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Rhode Island | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| South Carolina | - | $0 | - | $0 | - | $0 | 1 | $443,255 | 1 | $443,255 | 1 | $100,000,000 |
| South Dakota | 1 | $386,984 | - | $0 | 4 | $562,818 | - | $0 | 5 | $949,802 | - | $0 |
| Tennessee | 1 | $960,000 | - | $0 | - | $0 | 1 | $112,500 | 2 | $1,072,500 | - | $0 |
| Texas | - | $0 | 1 | $92,608 | - | $0 | 1 | $30,000 | 2 | $122,608 | - | $0 |
| Utah | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| U.S. Virgin Islands | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |

# Appendix A

## FY 2007 CDFI Fund Award and Allocation Activities

| | FA Awards | | TA Awards | | NI Awards | | BEA Awards | | Total Awards | | Allocation of New Markets Tax Credits (1) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| STATE | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| Vermont | 1 | $570,999 | - | $0 | - | $0 | - | $0 | 1 | $570,999 | - | $0 |
| Virginia | 1 | $200,000 | - | $0 | - | $0 | - | $0 | 1 | $200,000 | 2 | $150,000,000 |
| Washington | 1 | $87,036 | - | $0 | - | $0 | - | $0 | 1 | $87,036 | 1 | $22,000,000 |
| West Virginia | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Wisconsin | 3 | $1,495,557 | 1 | $92,110 | 3 | $388,466 | 2 | $991,521 | 9 | $2,967,654 | 4 | $305,000,000 |
| Wyoming | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 | - | $0 |
| Amounts Awarded in FY 2007 F | 49 | $25,885,066 | 19 | $1,501,507 | 19 | $3,632,292 | 51 | $11,167,711 | 138 | $42,186,576 | 61 | $3,909,000,000 |

(1) Consists of New Markets Tax Credit Awardees headquartered in these states. Amounts shown represent amount of equity to be raised and includes $9 million in allocation authority that was rescinded from prior year allocatees and reallocated in the current year.

(2) Includes the modification of a FY 2006 award in FY 2007.

# Appendix B
# Total Fund Awards From Inception

| State | FA Awards | TA/SECA Awards | Native Initiative Awards (1) | BEA Awards | Total Awards From Inception | NMTC Allocations (2) |
|---|---|---|---|---|---|---|
| Alabama | $145,000 | $475,500 | $0 | $615,075 | $1,235,575 | $40,000,000 |
| Alaska | $7,912,500 | $306,000 | $481,595 | $0 | $8,700,095 | $40,000,000 |
| Arizona | $5,806,500 | $217,458 | $1,800,513 | $809,288 | $8,633,759 | $235,000,000 |
| Arkansas | $10,509,411 | $238,736 | $70,000 | $5,075,223 | $15,893,370 | $15,000,000 |
| California | $54,106,480 | $2,434,347 | $639,478 | $37,857,904 | $95,038,209 | $1,223,000,000 |
| Colorado | $8,531,300 | $2,712,358 | $270,000 | $2,116,915 | $13,630,573 | $292,000,000 |
| Connecticut | $3,204,105 | $542,439 | $0 | $373,205 | $4,119,749 | $0 |
| Delaware | $923,731 | $122,000 | $0 | $2,751,000 | $3,796,731 | $50,000,000 |
| District of Columbia | $13,734,202 | $758,800 | $0 | $5,899,454 | $20,392,456 | $1,318,000,000 |
| Florida | $16,823,800 | $1,256,618 | $0 | $9,491,003 | $27,571,421 | $15,000,000 |
| Georgia | $3,783,900 | $216,500 | $0 | $6,630,783 | $10,631,183 | $314,000,000 |
| Hawaii | $1,000,000 | $730,825 | $721,121 | $1,069,199 | $3,521,145 | $28,000,000 |
| Idaho | $2,793,300 | $200,000 | $0 | $0 | $2,993,300 | $0 |
| Illinois | $34,359,810 | $1,448,717 | $0 | $35,439,726 | $71,248,253 | $500,050,000 |
| Indiana | $2,308,000 | $362,500 | $0 | $1,528,188 | $4,198,688 | $78,000,000 |
| Iowa | $3,990,000 | $265,050 | $0 | $508,500 | $4,763,550 | $149,700,000 |
| Kansas | $1,903,000 | $240,504 | $25,000 | $2,752,432 | $4,920,936 | $0 |
| Kentucky | $16,264,163 | $811,460 | $0 | $5,424,946 | $22,500,569 | $198,500,000 |
| Louisiana | $4,637,744 | $586,050 | $0 | $1,934,109 | $7,157,903 | $1,167,500,000 |
| Maine | $12,058,856 | $562,361 | $1,838,876 | $1,481,251 | $15,941,344 | $369,000,000 |
| Maryland | $15,548,360 | $617,246 | $176,040 | $2,330,221 | $18,671,867 | $1,048,000,000 |
| Massachusetts | $19,190,723 | $2,614,345 | $0 | $6,204,405 | $28,009,473 | $628,000,000 |
| Michigan | $6,115,000 | $340,053 | $698,491 | $1,226,686 | $8,380,230 | $102,000,000 |
| Minnesota | $17,421,593 | $999,611 | $3,287,483 | $3,754,601 | $25,463,288 | $613,000,000 |
| Mississippi | $12,291,250 | $226,500 | $0 | $2,529,857 | $15,047,607 | $50,000,000 |
| Missouri | $1,310,109 | $148,500 | $0 | $4,653,034 | $6,111,643 | $537,000,000 |
| Montana | $1,446,800 | $588,905 | $866,360 | $315,962 | $3,218,027 | $30,000,000 |
| Nebraska | $350,000 | $413,843 | $265,000 | $97,832 | $1,126,675 | $23,000,000 |
| Nevada | $314,952 | $266,500 | $0 | $339,200 | $920,652 | $0 |
| New Hampshire | $8,565,000 | $93,425 | $0 | $1,132,000 | $9,790,425 | $0 |
| New Jersey | $10,226,064 | $706,469 | $0 | $4,587,390 | $15,519,923 | $358,000,000 |
| New Mexico | $7,188,500 | $165,069 | $0 | $185,705 | $7,539,274 | $110,000,000 |
| New York | $74,906,145 | $6,728,152 | $184,000 | $49,855,326 | $131,673,623 | $2,376,000,000 |
| North Carolina | $28,217,241 | $1,500,845 | $1,235,596 | $28,580,498 | $59,534,180 | $750,000,000 |
| North Dakota | $635,000 | $69,520 | $399,687 | $15,000 | $1,119,207 | $0 |
| Ohio | $8,186,991 | $1,091,759 | $0 | $3,755,203 | $13,033,953 | $988,000,000 |

| State | FA Awards | TA/SECA Awards | Native Initiative Awards (1) | BEA Awards | Total Awards From Inception | NMTC Allocations (2) |
|---|---|---|---|---|---|---|
| **Oklahoma** | $1,668,500 | $0 | $2,462,098 | $2,365,680 | $6,496,278 | $220,000,000 |
| **Oregon** | $5,051,250 | $429,250 | $0 | $5,678,348 | $11,158,848 | $311,500,000 |
| **Pennsylvania** | $35,623,580 | $3,538,521 | $0 | $1,873,327 | $41,035,428 | $413,500,000 |
| **Puerto Rico** | $300,000 | $115,000 | $0 | $0 | $415,000 | $0 |
| **Rhode Island** | $750,000 | $389,900 | $0 | $0 | $1,139,900 | $0 |
| **South Carolina** | $500,000 | $292,600 | $0 | $1,925,779 | $2,718,379 | $189,000,000 |
| **South Dakota** | $6,071,794 | $582,000 | $4,046,551 | $722,250 | $11,422,595 | $50,000,000 |
| **Tennessee** | $8,225,000 | $150,100 | $95,000 | $3,855,211 | $12,325,311 | $35,250,000 |
| **Texas** | $15,654,470 | $3,747,209 | $0 | $15,142,992 | $34,544,671 | $37,000,000 |
| **Utah** | $2,000,000 | $392,500 | $353,000 | $120,000 | $2,865,500 | $100,000,000 |
| **U.S. Virgin Islands** | $770,000 | $0 | $0 | $0 | $770,000 | $0 |
| **Vermont** | $9,570,549 | $490,055 | $0 | $0 | $10,060,604 | $2,000,000 |
| **Virginia** | $4,420,400 | $1,023,090 | $0 | $23,000 | $5,466,490 | $256,000,000 |
| **Washington** | $7,673,286 | $895,495 | $1,726,800 | $2,405,991 | $12,701,572 | $125,000,000 |
| **West Virginia** | $2,439,000 | $331,768 | $0 | $0 | $2,770,768 | $4,000,000 |
| **Wisconsin** | $10,225,007 | $385,610 | $1,185,596 | $3,766,435 | $15,562,648 | $611,000,000 |
| **Wyoming** | $0 | $0 | $616,853 | $0 | $616,853 | $0 |
| **TOTALS** | *$527,652,366* | *$43,822,063* | *$23,445,138* | *$269,200,134* | *$864,119,701* | *$16,000,000,000* |

(1) Consists of awards made under all Native American Programs.

(2) Consists of New Markets Tax Credit (NMTC) allocatees headquarted in these states. Amounts shown represents amount of equity supported by tax credits.

# Appendix C
# GLOSSARY OF TERMS

**ALLOCATION (OF TAX CREDITS)**

Through the New Markets Tax Credit Program, the CDFI Fund provides a Community Development Entity with the authority to sell tax credits to investors in exchange for an investment in the CDE.

**BANK**

Any organization engaged in any or all of the various functions of banking, i.e., receiving, collecting, transferring, paying, lending, investing, dealing, exchanging, and servicing (safe deposit, custodianship, agency, trusteeship) money and claims to money both domestically and internationally.

In its more specific sense, the term bank refers to institutions providing deposit facilities for the general public, including insured depository institutions. Banking institutions may be classified into two broad groups: (1) commercial banks and their central banks; and (2) noncommercial bank institutions. Included in the latter group are such institutions as savings and loan associations, mutual savings banks, and credit unions. These institutions are often referred to as thrift institutions, although commercial banks also provide savings and time deposit accounts.

**BANK ENTERPRISE AWARD (BEA) PROGRAM**

Through the Bank Enterprise Award (BEA) Program, the CDFI Fund provides awards to insured depository institutions that increase their level of activities in the form of loans, investments, services, and technical assistance within distressed communities. BEA Program awardees can also provide financial assistance to CDFIs through grants, stock purchases, loans, deposits, and other forms of financial and technical assistance. In general, an award is made based on the lender's success in certain BEA Program-qualified activities that were projected in the application for BEA CDFI Funds. The BEA Program regulations are found at 12 CFR Part 1806.

## COMMUNITY DEVELOPMENT ENTITY (CDE)

Through the New Markets Tax Credit Program, the CDFI Fund certifies an entity as a CDE if it is a duly organized entity that is treated as a domestic corporation or partnership for federal income tax purposes and that (a) has a primary mission of serving, or providing investment capital for, Low-Income Communities or Low-Income Persons; and (b) maintains accountability to residents of Low-Income Communities through their representation on any governing board of the entity.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

Community Development Financial Institution – a nongovernmental entity that meets the following eligibility criteria and is certified by the CDFI Fund as such:

1. Has a primary mission of promoting community development;
2. Serves an eligible investment area or targeted population;
3. has a predominant business activity of providing Financial Products, loans or certain equity investments;
4. In conjunction with its loans or development investments, provides development activities and services that promote community development (ex. financial management technical assistance, financial or credit counseling); and
5. Maintains accountability to residents of the investment area or targeted population through representation on its governing board or otherwise.

Additional eligibility criteria apply if the entity is a depository institution holding company or an insured depository institution. The CDFI Fund's requirements for CDFI certification and eligibility are found at 12 CFR 1805.200.

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) CDFI FUND**

A government corporation within the Department of the Treasury, created to promote economic revitalization and community development through investment in and assistance to CDFIs, including enhancing their liquidity. It was created by Congress and has the duties and responsibilities specified in the Riegle Community Development and Regulatory Improvement Act of 1994.

**COMMUNITY INVESTMENT IMPACT SYSTEM (CIIS)**

CIIS is a web-based system managed by the CDFI Fund that collects and stores institution-level and transaction-level data from CDFIs and CDEs.

**EQUITY**

The raising of capital by a corporation issuing or selling its stock (in contrast with "debt," which is the raising of capital by issuing bonds or borrowing money).

**CDFI FUNDING ROUND**

Each CDFI Fund application and award is identified with a CDFI Funding round that corresponds to the fiscal year for which the CDFI Fund issues a Notice of Awards Availability (NOFA).

**NATIVE AMERICAN CDFI ASSISTANCE (NACA) PROGRAM**

Through the Native American CDFI Assistance (NACA) Program, introduced in FY 2004, the CDFI Fund provides Financial Assistance awards to eligible Native American CDFIs to support their financing activities, as well as Technical Assistance awards to existing Native CDFIs and Native organizations seeking to become or create a CDFI. A Native American CDFI is defined as a

CDFI with greater than 50 percent of its activities directed to Native American Communities. In FY 2005, the NACA Program replaced the NACD and NATA Programs.

## NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

Replaced by the NACA Program in FY 2005, the Native American CDFI Development (NACD) Program provided Technical Assistance grants to "sponsoring organizations," such as Tribes or entities primarily serving Native American Communities, to help create Native American CDFIs.

## NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

Replaced by the NACA Program in FY 2005, the Native American Technical Assistance (NATA) Component was similar to the NACD Program, the difference being that the NATA Component was limited to CDFIs and entities proposing to become CDFIs. NATA grants were provided as part of the Technical Assistance Component of the CDFI Program.

## NEW MARKETS TAX CREDIT (NMTC) PROGRAM

Through the New Markets Tax Credit (NMTC) Program, the CDFI Fund provides allocations of tax credits to qualified Community Development Entities (CDEs). The CDEs in turn provide tax credits to private sector investors in exchange for their investment dollars; investment proceeds received by the CDEs are be used to make loans and equity investments in low-income communities.

## QUALIFIED EQUITY INVESTMENT (QEI)

An investment in a CDE through the NMTC Program meeting the following criteria: the investment proceeds are used by the CDE to make Qualified Low-Income Community Investments (QLICIs), the CDE designates the investment as a QEI, and the investment is made by the CDE within 5 years from the date of its NMTC allocation.

**QUALIFIED LOW-INCOME COMMUNITY INVESTMENT (QLICI)**

1) An investment made by a CDE in, or loan to, any qualified active low-income community business; 2) the purchase from a CDE of any such loan; 3) financial counseling and other services to businesses in, and residents of, low-income communities; and 4) any equity investment in, or loan to, any CDE.

**TECHNICAL ASSISTANCE**

Activities that enhance the capacity of an organization to carry out its business and purpose, such as training of management and other personnel; developing programs and loan or investment loan products; improving financial management and internal operations; and enhancing an organization's community impact.

**UNDERSERVED COMMUNITY**

An Underserved Community may include the following:
1) An Investment Area under the CDFI Program;
2) A Targeted Population under the CDFI Program;
3) A Low-Income Community under the NMTC Program; and/or 4) A Distressed Community under the BEA Program. Many Native American Communities also qualify as Underserved Communities. "Native American Communities" are defined as any Native American, Alaska Native or Native Hawaiian populations, lands or Census-equivalent entities, with the exception of State or Tribal Designated Statistical Areas.