Audit Report

OIG-17-009

FINANCIAL MANAGEMENT

Audit of the Community Development Financial Institutions Fund's Fiscal Years 2016 and 2015 Financial Statements

November 14, 2016

Office of Inspector General

Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 14, 2016

MEMORANDUM FOR MARY A. DONOVAN, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Audit of the Community Development Financial Institutions Fund's Fiscal Years 2016 and 2015 Financial Statements

We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the Community Development Financial Institutions (CDFI) Fund as of September 30, 2016 and 2015, and for the years then ended, to provide a report on internal control over financial reporting, and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

In its audit of the CDFI Fund, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a material weakness with CDFI Fund's control over financial management and communication; and
- no instances of reportable noncompliance with laws, regulations, contracts, and grant agreements tested.

KPMG also issued a management letter dated November 14, 2016, discussing a matter involving internal controls that was identified during the audit but was not required to be included in the auditors' reports. This letter will be transmitted separately.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the CDFI Fund's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated November 14, 2016, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-0009, or a member of your staff may contact Catherine Yi, Manager, Financial and Procurement Audit, at (202) 927-5591.

Attachment

Community Development Financial Institutions Fund

United States Department of the Treasury

Agency Financial Report
FY 2016

Table of Contents

Message from the Director

I am pleased to present the fiscal year (FY) 2016 Agency Financial Report for the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund).

In 2016, the CDFI Fund held funding competitions and made awards and investments as follows:

- *Community Development Financial Institutions Program (CDFI Program) and the Native American CDFI Assistance Program (NACA Program):* $185.7 million was awarded to 196 organizations through the CDFI Program and NACA Program. Under the CDFI Program, a total of $170.2 million was awarded to 158 organizations, including $22 million in awards to nine organizations through the Health Food Financing Initiative. Another $15.5 million was awarded under the NACA Program to 38 organizations.

- *CDFI Bond Guarantee Program:* Two bond transactions totaling $265 million were closed benefitting four CDFIs.

- *Capital Magnet Fund:* In the first award round since FY 2010, the Capital Magnet Fund made $91.5 million in awards to 32 organizations.

- *New Markets Tax Credit Program (NMTC Program):* In December 2015, Congress extended the NMTC Program through 2019, an unprecedented five-year extension. In order to make allocation awards in the respective calendar years (CY) for which they are authorized, the CDFI Fund combined allocation authority for the CY 2015 and CY 2016 rounds, a total of $7.0 billion. Allocation announcements will be made in the fourth quarter of calendar year 2016.

- *Bank Enterprise Award Program (BEA):* The opening of the competition for FY 2016 was delayed to the first quarter of FY 2017 to accommodate the implementation of the CDFI Fund's new Awards Management Information System.

In addition to these programmatic accomplishments, there were a number of other important FY 2016 milestones that I would like to highlight:

- *Awards Management Information System (AMIS):* The CDFI Fund expanded use of AMIS to include the CDFI, NACA, and Capital Magnet Fund program rounds for FY 2016. AMIS is a modern, cloud-based platform that will eventually support all CDFI Fund programs through each phase of the programs' life cycle, including certification, program awards and allocations, data analysis, and reporting.

- *FY 2016 Prize Competition:* The CDFI Fund conducted the FY 2016 Prize Competition and solicited innovative proposals that: (1) identify and promote new ideas and practices for implementation by CDFIs that serve rural areas, especially areas of persistent poverty; and/or (2) create value during and after the competition by encouraging CDFIs serving rural areas to develop new skills or practices that may have beneficial effects on the communities they serve. Eight different organizations were awarded an aggregate total of $1 million for their innovative ideas.

- *BEA Program Evaluation:* The purpose of this project is to develop baseline information about the history and evolution of the program; as well as to describe how BEA Program awards are used, the areas and populations served, and the types of financial products and services provided by the awardees. A great deal of progress was made on the BEA Program Evaluation report in FY 2016. The CDFI Fund anticipates releasing the study early in FY 2017.

- *NMTC Program Compliance Risk Research:* In 2016, the CDFI Fund undertook a study that addresses key issues related to monitoring program outcomes and mitigating compliance risks throughout the seven-year tax credit reporting period for the NMTC Program. The study will determine what additional measures the CDFI Fund should employ to ensure proper monitoring and compliance of the program. The study is on track and scheduled to be completed in spring of 2017.

- *CDFI Program Assessment and Risk Management (ARM) Framework:* In FY 2016, the CDFI Fund advanced the ARM Framework by developing a suite of tools to facilitate internal assessment of CDFIs in the certification and award processes, monitor the risk of non-compliance for awardees, and allow the CDFI Fund to better track industry-wide trends. The CDFI Fund developed beta or conceptual versions of the five tools, including: the Application Assessment Tool, the Certification Assessment Tool, the Compliance Assessment Model, the CDFI Industry Data Analysis and Reporting Tool, and the Direct Loan Risk Assessment Tool.

- *CDFI Credit Union Certification Initiative:* The CDFI Fund partnered with the National Credit Union Administration (NCUA) to develop a streamlined certification process for Low-Income Designated (LID) credit unions. Many LID credit unions are serving the target markets the CDFI Fund seeks to reach, yet they lack access to the benefits of CDFI Fund programs because they have not applied for certification. Under this initiative, NCUA analyzes data they already collect to determine which credit unions are likely to be strong candidates for certification, and shares that analysis with qualifying credit unions in a form they can submit to the CDFI Fund. The goal is to reduce the administrative burden of applying and significantly increase the number of certified CDFI credit unions.

I would like to express my deepest gratitude to the CDFI Fund staff for the exceptional dedication and hard work that made these results possible. As each of these achievements clearly demonstrates, the CDFI Fund continues to succeed in its mission to increase economic opportunity and promote community development in distressed communities throughout the nation.

Mary A. Donovan

Director
Community Development Financial Institutions Fund
November 14, 2016

Community Development Financial Institutions Fund Overview

Overview

In 1994, the Community Development Financial Institutions Fund (CDFI Fund) was created for the purpose of promoting economic revitalization and community development through investment in Community Development Financial Institutions (CDFIs). Since 1996, the CDFI Fund has administered the Community Development Financial Institutions Program (CDFI Program) and the Bank Enterprise Award Program (BEA Program) to help build the capacity of CDFIs, increase investment in CDFIs, and increase community development lending, investments, and service-related activities in distressed communities, respectively. 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 Program (NMTC Program). The breadth and depth of the CDFI Fund's reach was further expanded in FY 2008, with the enactment of legislation that created the Capital Magnet Fund (CMF), and again in FY 2010 with the enactment of legislation that created the CDFI Bond Guarantee Program.

Since its creation in 1994, the CDFI Fund has awarded more than $2.3 billion to CDFIs, community development organizations, and financial institutions through the CDFI Program, the BEA Program, and the Native American CDFI Assistance Program (NACA Program). Further, the CDFI Fund has allocated $43.5 billion in tax credit authority to Community Development Entities (CDEs) through the NMTC Program, closed guaranteed bonds in the total amount of $1.1 billion through the CDFI Bond Guarantee Program, and awarded more than $171 million through the Capital Magnet Fund.

Authorizing Legislation

The CDFI Fund was established as a bipartisan initiative under the Riegle Community Development and Regulatory Improvement Act of 1994, which authorized the CDFI Program and BEA Program. The NMTC Program was authorized by the Community Renewal Tax Relief Act of 2000. The Capital Magnet Fund was authorized by the Housing and Economic Recovery Act of 2008. The CDFI Bond Guarantee Program was authorized by the Small Business Jobs Act of 2010.

CDFI Fund's Vision and Mission

The vision of the CDFI Fund is an America in which all people and communities have access to the investment capital and financial services they need to prosper. Its mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers.

CDFI Fund's Programs

The CDFI Fund achieves its purpose by promoting access to capital and economic growth through the following programs:

Bank Enterprise Award Program, which provides monetary awards to federally insured banks and thrifts for increasing investments in distressed communities and/or CDFIs;

Capital Magnet Fund, which provides grants for CDFIs and qualified non-profit housing organizations to finance the development, preservation, rehabilitation, and purchase of affordable housing for low-, very low-, and extremely low-income families, and for related economic development activities;

CDFI Bond Guarantee Program, through which the Secretary provides guarantees for the full amount of bonds issued to support CDFIs that make investments for eligible community or economic development purposes;

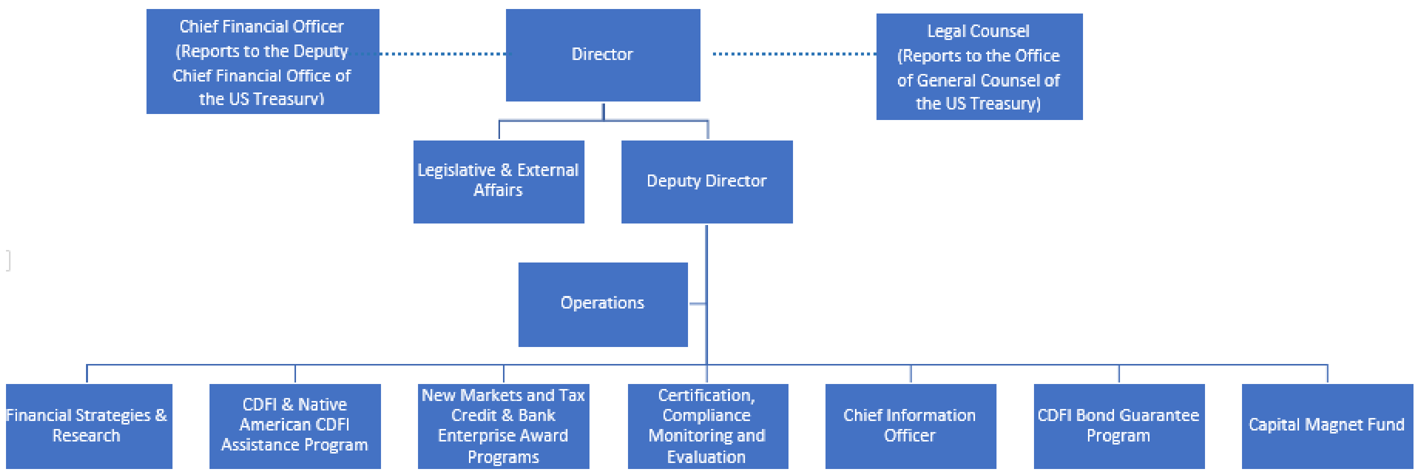
Community Development Financial Institutions Program, which provides Financial Assistance awards to institutions that are certified as CDFIs and Technical Assistance grants to certified CDFIs and entities that will become certified as CDFIs within two years in order to sustain and expand their services and to build their technical capacity;

Native Initiatives, which provides Financial Assistance and Technical Assistance awards through the Native American CDFI Assistance Program (NACA Program) to CDFIs serving Native American, Alaskan Native and Native Hawaiian communities (Native Communities) to sustain and expand their services and to build their technical capacity; as well as training opportunities through the Capacity Building Initiative; and

New Markets Tax Credit Program, which provides tax credit allocation authority to certified Community Development Entities (CDEs), enabling investors to claim tax credits against their federal income taxes, with investment proceeds used for community development purposes.

Organization of the CDFI Fund

The CDFI Fund's organizational structure consists of the following offices and programs: Director; Deputy Director; Legal Counsel; Chief Financial Officer; Legislative and External Affairs; Operations; Capital Magnet Fund; CDFI Bond Guarantee Program; CDFI and Native American CDFI Assistance Programs; Chief Information Officer; Certification, Compliance Monitoring, and Evaluation; Financial Strategies and Research; and New Markets Tax Credit and Bank Enterprise Award Programs. The CDFI Fund's organization chart is shown below.



What is a CDFI?

Providing access to affordable financial products and services in underserved communities is a vital part of the CDFI Fund's mission. By building the capacity of a nation-wide network of specialized financial institutions serving economically distressed communities, low-income people are empowered to enter the financial mainstream. The community-based organizations that make this possible are called Community Development Financial Institutions — or CDFIs — and are dedicated to serving market niches that are often underserved by traditional financial institutions. The first step to utilizing many of the CDFI Fund's programs is CDFI certification. For example, only financial institutions certified by the CDFI Fund can receive Financial Assistance awards through the CDFI Program and the NACA Program.

CDFIs provide a range of financial products and services that 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 mainstream financial institutions (such as mortgage financing for low-income and first-time homebuyers, small business lending, and lending for community facilities), CDFIs may offer rates and terms that are more flexible to low-income borrowers and small businesses. CDFIs also provide services that help ensure that credit is used effectively, such as technical assistance to small businesses, and home buying and credit counseling to consumers. In addition, CDFIs often lend to and make equity investments in markets that may not be served by mainstream financial institutions. CDFIs include depository institutions, such as community development banks and credit unions; and non-depository institutions, such as loan funds and venture capital funds.

CDFI Customers

CDFIs serve a wide range of customers, including (among others):

- Small business owners who provide employment opportunities and needed services to disadvantaged communities;
- Affordable housing developers who construct and rehabilitate homes in low-income communities;
- Community facilities used to provide child care, health care, education, and social services in underserved communities;
- Commercial real estate developers who 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.

Certification of Community Development Financial Institutions and Community Development Entities

CDFI certification is a designation conferred by the CDFI Fund. An organization must meet the following seven statutory and regulatory criteria:

1) Be a legal entity;
2) Have a primary mission of promoting community development;
3) Serve principally an investment area or targeted population;
4) Be an insured depository institution, or otherwise have the offering of financial products and services as its predominant business activity;
5) Provide development services (such as technical assistance or counseling) in conjunction with its financing activity;
6) Maintain accountability to its target market; and
7) Be a non-governmental entity and not be controlled by any governmental entities.

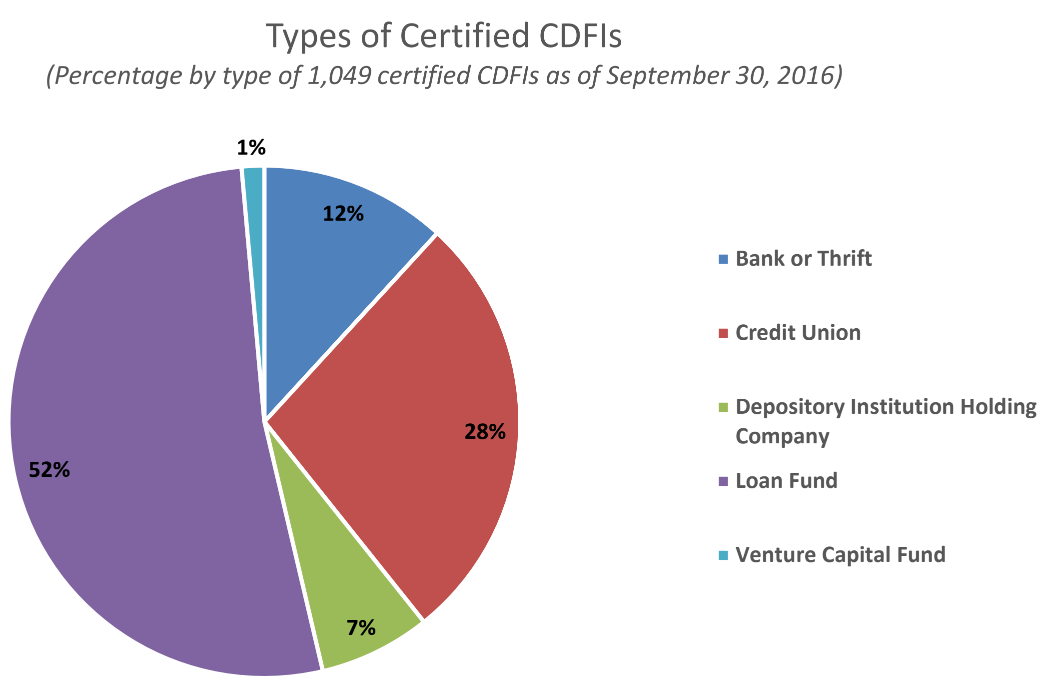
CDFI certification is a requirement for accessing Financial Assistance awards through the CDFI Program and the NACA Program, and certain benefits through the BEA Program. In addition, CDFI certification is required to access funding through the CDFI Bond Guarantee Program. The total number of certified CDFIs as of the end of FY 2016 was 1049, representing a net increase of 91 CDFIs since the prior fiscal year end. CDFIs are headquartered in all 50 states, the District of Columbia, Guam, and Puerto Rico.

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. To be certified as a CDE, organizations must demonstrate a primary mission of serving low-income communities and low-income people, 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 allocations of tax credit authority through the NMTC Program.

Benefits of CDE certification include being able to: (1) apply to the CDFI Fund to receive an allocation of NMTC authority to offer to 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 NMTC authority. As of the end of FY 2016, the total number of certified CDEs (not including subsidiaries) was 2,209. CDEs are headquartered in 49 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

Types of Certified CDFIs

There are four main types of CDFIs, each providing a different mix of products geared to reach specific customers.



- ***Community development banks, thrifts and bank holding companies*** are regulated for-profit corporations that provide capital to rebuild economically distressed communities through targeted lending and investment;

- ***Community development credit unions*** are regulated non-profit cooperatives owned by members that 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*** include both for-profit and non-profit organizations that provide equity and debt-with-equity features for businesses in distressed communities.

Compliance Monitoring and Evaluation

Enhancing compliance monitoring is an essential part of the CDFI Fund's goals. The agency recognizes the importance of ensuring that each dollar of assistance be utilized in ways that further the public interest. In FY 2016, the CDFI Fund continued its multi-year effort to enhance monitoring using risk-based strategies. It also invested time and attention to examining core compliance monitoring processes for the CDFI Program. A similar process was started late in the year for New Markets Tax Credit compliance monitoring, which is continuing in FY 2017.

Though not all of these changes will be visible to the public, the CDFI Fund expects these enhancements to improve the experience of our awardees, while allowing the compliance staff to focus on deeper compliance analysis.

In FY 2016, the CDFI Fund accomplished the following steps in order to further enhance compliance monitoring operations:

- CDFI Program compliance for the CDFI Program was built and operationalized in AMIS. Additional public outreach was conducted to familiarize the CDFI Fund network with the new reporting requirements.

- Compliance monitoring operations were enhanced for the relaunched Capital Magnet Fund program.

- The inaugural round of annual compliance reporting was implemented for all certified CDFIs.

- Additional staff was hired and a portfolio management model was fully implemented in order to manage "key staff" risk and greater overall capacity to surge resources where needed.

- New compliance guidance was released to implement restrictions for the 2015 round of the NMTC Program. These restrictions are intended to limit the use of Qualified Low Income Community Investments to be used to repay investors that have made Qualified Equity Investments.

- Additional analysis was completed on creation of compliance risk models for the CDFI Program and CDFI certification compliance.

The CDFI Program compliance reporting system in AMIS was fully operational as of the end of FY 2016. Additional enhancements will be made in early FY 2017, including automated processing in cases of non-reporting and some compliance rating determinations. Compliance staff will be working on transitioning compliance monitoring from legacy systems to AMIS for the New Markets Tax Crest Program, Bank Enterprise Award Program, and Capital Magnet Fund.

Allocation of CDFI Fund Appropriations

The CDFI Fund's appropriations are comprised of program funds and administrative funds. Program funds are used for program awards (such as grants, loans, deposits, equity investments, and capacity building / training contracts); administrative funds are used to cover the costs to administer all programs, including the NMTC Program, the CDFI Bond Guarantee Program, and the Capital Magnet Fund.

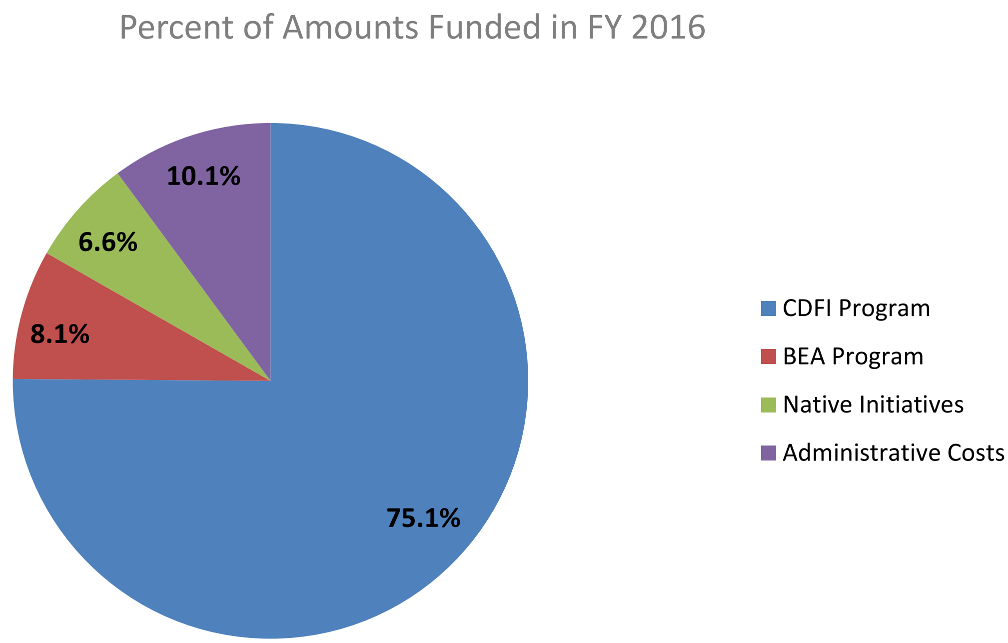
In FY 2016, the CDFI Fund's budgetary allocation of $233.5 million in appropriated funds was as follows:

Appropriations Allocated
(Amounts in Millions)

	FY2016	FY2015
Amounts Appropriated:		
CDFI Program	$175.4	$174.4
BEA Program	19.0	18.0
Native Initiatives	15.5	15.0
Administrative Cost	23.6	23.1
Total Amounts Appropriated	$233.5	$230.5
Less Amounts Not Obligated[1]	28.3	2.6
Total Appropriations Used	$205.2	$227.9

[1] In FY 2015, the CDFI Fund carried over $2.6 million, which comprised of $2.5 million from the CDFI Program (this includes unobligated balances from the HFFI and the Subsidies for the Direct Loans) and $.1 million from the NACA Program. (Congress changed the CDFI Fund's Program Administration account to a single year appropriation in FY 2015; therefore, unobligated administrative funds will no longer be included in presentation.)

In FY 2016, the CDFI Fund carried over $28.3 million, which comprises of $9.5 million from the CDFI Program (this includes unobligated balances from the HFFI and the Subsidies for the Direct Loans), $18.6 million from the BEA Program, and $0.2 million from the NACA Program



Sources of Funding

Congress appropriates funding annually to the CDFI Fund; each appropriation can be used over two fiscal years, with the exception of administrative expenses, which will expire at the end of each fiscal year. Appropriations include fiscal year budget authority and any unobligated funds from the prior year that may be carried over. In addition, the annual appropriation amount includes borrowing authority to make loans.

Sources of CDFI Fund Funding (Amounts in Millions)

	FY 2016	FY 2015
Budgetary Appropriations	$233.5	$230.5
Prior Year Amounts Deobligated,		
Used to Fund Current Year Obligations	2.5	3.9
Carryover from Prior Year	0.3	10.9
No-Year Funds	5.0	0.0
Borrowing Authority Used	218.4	107.8
Total Sources of Funds	**$459.7**	**$353.1**

Note: The above amounts do not include credit subsidy re-estimates.

Program Discussion and Analysis

Community Development Financial Institutions Program

Through the Community Development Financial Institutions Program (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 Program provides monetary awards for Financial Assistance (FA) and Technical Assistance (TA). 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 and financial literacy training to underserved communities).

In FY 2016, the CDFI Program announced awards to 158 organizations totaling over $170.2 million to CDFIs - $148.2 million in CDFI Program awards (FA and TA) and $22 million in Healthy Food Financing Initiative (HFFI-FA) awards. The CDFI Program used $3.1 million of the FY 2015 appropriated funds and $143.9 million of the FY 2016 funds for $147 million in FY 2016 awards[2]. The HFFI-FA program used $50,000 of the FY 2015 funds and $22 million of the FY 2016 funds for more than $22 million in FY 2016 awards.

CDFI Program: Financial Assistance Award Types

The CDFI Program consists of three components: Financial Assistance (FA) awards, Healthy Food Financing Initiative (HFFI-FA) awards, and Technical Assistance (TA) awards. The FA component is by far the most subscribed and includes two categories: Category 1 – Small and Emerging CDFI Assistance (SECA); and Category 2 – Core.

Applicants must demonstrate they have the financial and managerial capacity to make significant impact in the communities they serve. Applicants must: 1) be able to provide affordable and appropriate financial products and services; 2) be a viable financial institution; 3) be able to use CDFI Program awards effectively; and 4) have the ability to leverage their awards with non-Federal funding.

The CDFI Program makes FA awards in the form of equity investments, loans, deposits, and grants; the CDFI awardee is required to match its FA award dollar-for-dollar with non-Federal funds, which determine the form of the award. This requirement enables CDFIs to leverage private capital to meet the demand for affordable financial products and services in economically distressed communities. In FY 2016, SECA and HFFI awards

[2] The amount of appropriations used is less than the amount awarded because the CDFI Fund borrows the amount of awards made in the form of a loan and only pays the loan subsidy amount (12 percent), therefore the CDFI Fund can make more awards than appropriated.

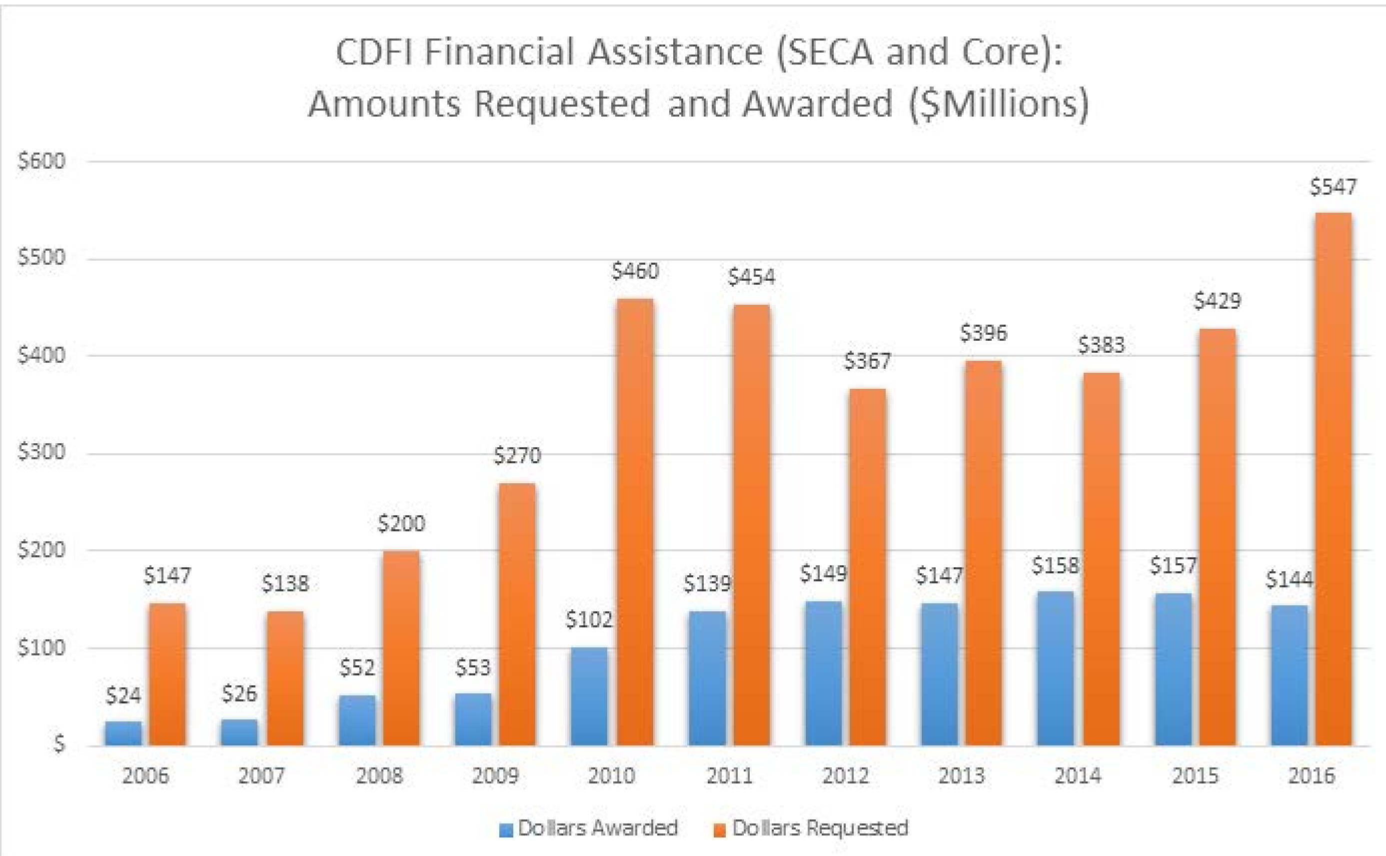
were not required to provide matching funds and the awards were made in the form of a grant.

FY 2016 Core and SECA Awards

In FY 2016, the Financial Assistance component received eligible applications from 361 organizations requesting $547.1 million in FA awards, including 72 SECA applicants requesting $47.5 million and 289 Core applicants seeking $499.6 million.

The CDFI Fund awarded a total of $144 million to 123 organizations in FY 2016, including 29 SECA awards totaling $14 million and 94 Core awards totaling $130 million.

The following graph shows the total amount of FA funds requested and awarded since FY 2006. The CDFI Program has consistently received more applications than it can fund.



FY 2016 Healthy Food Financing Initiative-Financial Assistance Awards

In FY 2011, the CDFI Fund launched the Healthy Food Financing Initiative (HFFI-FA) and provided financial assistance awards through the CDFI Program to support the initiative. The Healthy Food Financing Initiative represents the Federal government’s first coordinated step to eliminate “food deserts” – low-income urban and rural areas in the United States with limited access to affordable and nutritious food – by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships. HFFI-FA awards can be used to make loans and investments and to provide development services that promote and increase access to healthy food options in low-income communities.

In FY 2016, the CDFI Fund announced $22 million in HFFI-FA awards through the CDFI Program to 9 organizations to finance healthy food activities. A total of 34 HFFI-FA applicants requested $122 million.

In FY 2016, 23 prior HFFI-FA awardees reported 261 healthy food investments totaling $137.9 million. There were 131 retail investments totaling over $115 million that developed 1,581,243 square feet of new retail space for projects ranging from small green grocers to large supermarkets which served low-income, low-access census tracts. In addition, there were 130 non-retail investments totaling over $23 million in projects involving production and distribution, which developed 2,225,673 square feet of space for eligible healthy food activities.

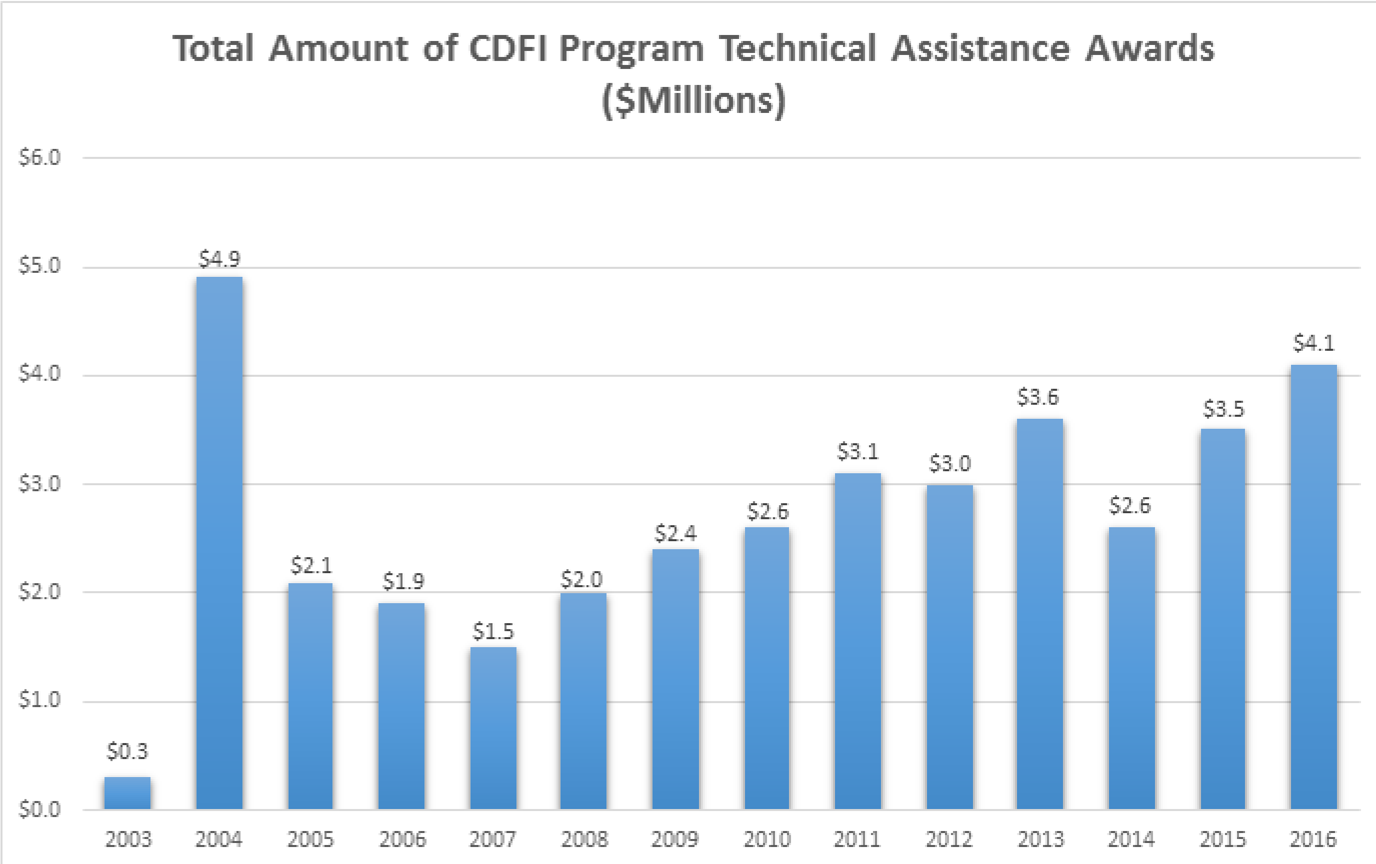
CDFI Program: Technical Assistance

Through the Technical Assistance (TA) component of the CDFI Program, the CDFI Fund provides grants to build the capacity of both start-up and existing CDFIs. TA grant funds can be used for items such as staff salaries, fringe benefits, staff training, professional services, supplies, and equipment. Applicants often request funds to analyze their target markets, develop lending policies and procedures, or to build staff lending capacity. There is no matching requirement for applicants seeking TA.

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

FY 2016 Technical Assistance Awards

In FY 2016, the CDFI Fund received 62 eligible applications requesting a total of more than $7 million in TA grants; 35 organizations received awards totaling $4.1 million.



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 FY 2016 performance information provided here pertains to each awardee's performance results for FY 2015. Please note that the lag in performance reporting reflects the time it takes to deploy funds and make investments for which actual and projected results can be estimated. The lag in performance reporting reflects the length of time from notice of award to award disbursement, the time it takes for an awardee to deploy the funds, and the additional time it takes to compute and report awardee impact information to the CDFI Fund's CIIS reporting system. The FY 2016 performance results reported in the table below reflect program outcomes and activities for 2015 and are based on information entered into CIIS by reporting CDFI Program awardees.

In FY 2016, CDFI awardees reported originating loans or investments totaling over $3.6 billion, based on their portfolio of activities in 2015. This includes, but not limited to, $806 million for home improvement and purchase loans, $897 million for business and microenterprise loans to 11,349 businesses, and $895 million for residential real estate transactions. The data on the amount and number of loans or investments originated provide baselines for benchmarking and targeting program performance in the forthcoming fiscal year.

In addition, real estate loans financed 33,582 affordable housing units, including 31,571 rental units and 2,011 owner units. CDFIs also provided financial products and services to “unbanked” and underserved individuals by providing 3,741 Individual Development Accounts and financial literacy counseling and other training opportunities to 427,542 individuals.

Annual Performance of CDFI Program Awardees for FY2016[3] (Based on Program Activities Reported in 2015)

	Amount
Lending and Investing Activity	
Amount of Total Loans/Investments Originated	**$3,618,576,557**
Number of Total Loans/Investments Originated	39,453
Business and Microenterprise Originations	**$897,374,265**
Number of Originations	13,368
Consumer Originations	**$36,679,549**
Number of Originations	11,063
Home Improvement and Home Purchase Originations	**$806,855,800**
Number of Originations	11,692
Residential Real Estate Originations	**$895,115,942**
Number of Originations	1,794
Commercial Real Estate Originations	**$744,107,009**
Number of Originations	902
All Other Originations	**$238,443,992**
Number of Originations	634
Affordable Housing Units Financed	**33,582**
Rental Units	31,571
Owner Units	2,011
Business Financed[4]	**11,349**
Financial Access and Literacy	
Open Individual Development Accounts	3,741
Dollars Saved in Individual Development Accounts	$4,121,542
Individuals Served by Financial Literacy or Other Training	427,345

[3] Data does not include NACA Program award outcomes which are separately tabulated.

[4] This number reflects netting out businesses that received more than one loan, i.e., the repeat business borrowers of the 13,368 originations.

Native Initiatives

The Native Initiatives were created to increase opportunities for Native American, Alaska Native, and Native Hawaiian communities (Native Communities) to access credit, capital, and financial services by creating or expanding CDFIs primarily serving those communities (Native CDFIs). The Native Initiatives program has two main components: the Native American CDFI Assistance Program (NACA Program) and training opportunities available through the Capacity Building Initiative (CBI).

The Native Initiatives was established after the CDFI Fund published the "Native American Lending Study" in November 2001, which evaluated access to credit, capital, and financial services in Native Communities. The study affirmed the importance of developing Native CDFIs to play a key role in the broader effort to lead Native Communities into the nation's economic mainstream. Congress subsequently specified that the CDFI Fund use certain amounts of its annual appropriations to facilitate the development of Native CDFIs.

A Native CDFI primarily serves the needs of Native Communities. As of September 30, 2016, there were 74 certified Native CDFIs.

Native CDFIs focus, largely, on two different financial sectors: 1) affordable housing (housing development and homeownership); and 2) economic development (job creation, business development, and commercial real estate development). Some Native CDFIs serve as national or regional intermediaries, providing financial products and services to local Native CDFIs and other community development organizations.

FY 2016 NACA Program Awards

Through the NACA Program, the CDFI Fund provides two types of funding: 1) Financial Assistance (FA) awards which are only available to certified Native CDFIs; and 2) Technical Assistance (TA) grants, which are available to certified Native CDFIs, Emerging Native CDFIs, and Sponsoring Entities.

FA awards are primarily used for financing capital. FA awards are made in the form of loans, grants, deposits, and equity investments to support the certified Native CDFI's financing activities, and require the Native CDFI to match the CDFI Fund's award dollar-for-dollar with funds from a non-Federal source. In FY 2016, the matching funds requirement was waived and all awards were issued in the form of a grant. TA grants are generally used to acquire products or services including computer technology, staff training, and professional services, such as market analysis, and support for other general capacity-building activities. TA grants do not have a matching funds requirement. NACA Program awardees use their awards to increase their capacity to serve their target market and/or to create/become certified Native CDFIs.

The performance results reported by NACA Program awardees in FY 2016 show Native CDFIs originated loans or investments totaling $73.5 million based on their portfolio of activities in 2015, including nearly $57 million in business and microenterprise loans, $4.6 million in consumer loans, and $8.7 million in home improvement and home purchase loans. In addition, NACA program awardees provided financial literacy training to 16,501 individuals and set up 753 individual development accounts.

In FY 2016, the CDFI Fund received 61 NACA applications requesting $38 million for both FA and TA funding. The CDFI Fund awarded 38 organizations a total of $15.5 million for both FA and TA funding in FY 2016.

FY 2016 NACA Program: Financial Assistance Awards

In FY 2016, the CDFI Fund awarded 22 Native CDFIs approximately $13.2 million in NACA FA funds. Similar to the CDFI Program, the CDFI Fund invests in Native CDFIs that provide financing and related services to Native communities and populations lacking access to credit, capital, and financial services.

Applicants for FA funds under the NACA Program must demonstrate they have the financial and managerial capacity to make significant impact in the communities they serve. A successful applicant must: 1) be able to provide affordable and appropriate financial products and services; 2) be a viable financial institution; 3) be able to use NACA Program awards effectively; and 4) have the ability to leverage its awards with non-Federal funding.

FY 2016 NACA Program: Technical Assistance Grants

Through the NACA Program, the CDFI Fund provides TA grants, which are available to certified Native CDFIs, Emerging Native CDFIs, and Sponsoring Entities. Unique to the NACA Program, Sponsoring Entities (typically a Tribe or Tribal entity) create and support fledgling Native organizations as they move toward certification.

In FY 2016, 16 organizations received TA awards totaling $2.3 million. Below is a chart of the TA awards activity categories.

FY 2016 Technical Assistance Awards Use of Funds Categories

Category	$ Awarded	% of Total
Personnel (Salary & Fringe Benefits)	$ 1,608,696	69%
Professional Services	$ 287,188	12%
Equipment	$ 171,286	7%
Supplies	$ 82,738	4%
Training	$ 92,224	4%
Travel	$ 81,335	4%
Total	**$ 2,323,467**	**100%**

Native Initiatives Training

Through the Capacity Building Initiative, the CDFI Fund engaged a contractor to provide the resources for Native CDFI leaders to identify and address critical challenges of their organization. Please see *Building Native CDFIs' Sustainability and Impact* in the Capacity Building Initiative section for more information.

Capacity Building Initiative

The Capacity Building Initiative (CBI) is the CDFI Fund's primary means of training the nation's CDFI industry. Through the CBI, both certified CDFIs and emerging CDFIs nationwide are eligible to access targeted training and technical assistance. Industry-wide training targets key issues currently affecting

CDFIs and the communities they serve, including affordable housing and business lending, portfolio management, risk assessment, foreclosure prevention, general business operations, and liquidity and capitalization challenges. Training is offered at locations where CDFIs work, and technical assistance is often provided on-site. Capacity building plans are designed around the specific needs of participating CDFIs. All CDFIs are able to take advantage of online resource banks hosted on the CDFI Fund website.

Specific training series launched or ongoing in FY 2016 include:

- The *Expanding CDFI Investments in Underserved Areas* series, provided by Opportunity Finance Network. The series sought to increase CDFI coverage in underserved communities by providing advanced training and technical assistance, including one-on-one assistance, peer cohort forums, and advanced implementation forums for CDFIs. Training and technical assistance provision began in FY 2016. Since inception, a total of 1,632 individuals representing 1,439 organizations participated in at least one of the capacity building activities offered under the training events. A broad diversity of CDFI types participated, including 773 loan funds, 213 credit unions, 114 banks, and 66 venture funds. The geographic spread was equally impressive with CDFI participants from 36 states, the District of Columbia, and Puerto Rico. Participants had a 90 percent satisfaction rate for all types of training and technical assistance activities.

- The *Building Native CDFIs' Sustainability and Impact (BNCSI)* series, provided by NeighborWorks® America. The series provided specialized training and technical assistance to Native CDFIs in order to foster their growth and sustainability, and to enhance their ability to deliver financial services and financial products Native Communities. BNCSI provided capacity building support to 57 Native CDFIs, training 205 staff at seven on-site training events; developing Capacity Building Plans for 39 Native CDFIs; providing 2,359 hours of direct technical assistance and coaching; and training 123 staff through webinar engagements.

CDFI Program and NACA Program Assessment and Risk Assessment (ARM) Framework

In FY 2016 the ARM Framework advanced the development of a suite of tools to facilitate internal assessment of CDFIs in the certification and award processes, monitor the risk of non-compliance for awardees, and allow the CDFI Fund to better track industry-wide trends. The suite of ARM Framework tools consist of five modules: the Application Assessment Tool, the Certification Assessment Tool, the Compliance Assessment Model, the CDFI Industry Data Analysis and Reporting Tool (DART), and the Direct Loan Risk Assessment Tool. To date, the CDFI Fund has completed a beta version of the Application Assessment Tool and recalibrated the set of Minimum and Prudent Standards of key financial risk metrics utilizing both application data and the first round of Annual Certification Report for 705 certified CDFIs. In addition, conceptual designs were completed for the Certification Assessment Tool for evaluating new certification applicants and to monitor ongoing certification status, and the DART to monitor industry-wide performance and trends. Finally, a Non-Compliance Scorecard was developed to monitor CDFI program awardees, and a draft framework was developed for monitoring the Direct Loan compliance risk.

New Markets Tax Credit Program

The New Markets Tax Credit Program (NMTC Program) stimulates capital investment in low-income communities nationwide. The 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 QEI proceeds must in turn be used by the CDE to provide investments in low-income communities.

The CDFI Fund is responsible for awarding NMTC allocation authority to CDEs. It does so through a competitive award process. This process ensures that the most qualified organizations receive first consideration for this limited resource.

The tax credit provided to the investor totals 39 percent of the amount of the investment made in a CDE and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a tax 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 tax credit is six percent annually. Investors may not redeem their investments prior to the conclusion of the seven-year period.

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. Since the NMTC Program was enacted, it has been reauthorized five times; most recently, the Protecting Americans from Tax Hikes Act of 2015 extended authorization of the program for five calendar years (CY 2015 through CY 2019) with $3.5 billion in annual NMTC allocation authority.

Additionally, the Hurricane Katrina Gulf Opportunity (GO) Zone Act of 2005 authorized an additional $1 billion in allocation authority toward the rebuilding and renewal of the GO Zone, and the American Recovery and Reinvestment Act (Recovery Act) provided an additional $3 billion in allocation authority to assist in the economic recovery.

The Tax Relief and Health Care Act of 2006 required that Treasury prescribe regulations to ensure that non-metropolitan counties receive a proportional allocation of QEIs. The CDFI Fund's process for ensuring proportional non-metropolitan investment is described in the NMTC Program calendar year (CY) 2015 Notice of Allocation Availability (NOAA).

Results of the First 12 NMTC Allocation Rounds

NMTC allocations are awarded annually through a competitive process. CY 2002 was the first year in which applications for NMTC allocation authority were submitted to the CDFI Fund. To date, the CDFI Fund has completed 12 allocation rounds and has made 912 awards totaling $43.5 billion in allocation authority. This amount includes the $3 billion of Recovery Act-authorized allocations ($1.5 billion through the CY 2008 NMTC allocation round and $1.5 billion through the CY 2009 NMTC allocation round). For Round 13, award determinations have been finalized and a pending award announcements will take place in the first quarter of FY2017.

Applications as of CY 2015/16

Round	Year	Number	Amount (Billions)
1	2002	345	$25.8
2	2003/4	271	$30.4
3	2005	208	$22.9
4	2006	254	$28.3
5	2007	258	$27.9
6	2008	239	$21.3
7	2009	249	$22.5
8	2010	250	$23.5
9	2011	314	$26.7
10	2012	282	$21.9
11	2013	310	$25.9
12	2014	263	$19.9
13	2015/2016	238	$17.6
Totals		3481	$314.6

Allocations as of CY 2016

Round	Year	Number	Amount (Billions)
1	2002	66	$2.5
2	2003/4	63	$3.5
3	2005	41	$2.0
4	2006	63	$4.1
5	2007	61	$3.9
6	2008	102	$5.0
7	2009	99	$5.0
8	2010	99	$3.5
9	2011	70	$3.5 [5]
10	2012	85	$3.5
11	2013	87	$3.5
12	2014	76	$3.5
13	2015/16	120	$7.0[6]
Totals		1,032	$50.5

Demand for NMTC allocation authority has been high since the program's inception, as 3,481 applicants have requested tax credit authority supporting a total of more than $314.5 billion in equity investments – more than six times the amount of allocation authority available for awards by the CDFI Fund. Through the first 12 allocation rounds, only about 28 percent of applicants were selected to receive an award. The average NMTC award through the first 12 rounds was approximately $47.7 million.

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[5] The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 provided $3.5 billion in allocation authority for the CY 2011 Round. In addition to the $3.5 billion, the NMTC Program allocated $122.9 million of unused, rescinded or surrendered allocation authority from prior rounds.

[6] The Protecting Americans from Tax Hikes Act of 2015 provided $3.5 billion in allocation for CY 2015 and CY 2016. The CDFI Fund amended the CY 2015 Notice of Allocation Availability to award $7 billion in combined allocation authority for CY 2015 and CY 2016 through a single application round.

CY 2015/16 NMTC Program Allocation Round

The CDFI Fund published a NOAA for the CY 2015 NMTC allocation round on October 23, 2015. Through this NOAA, the CDFI Fund announced the availability of up to $5.0 billion of NMTC investment authority, subject to Congressional authorization. The passage of the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) on December 18, 2015 extended authorization for the NMTC Program for five calendar years (CY 2015 through CY 2019) with $3.5 billion in annual NMTC allocation authority. In order to make NMTC allocation awards in the respective calendar years as set forth in the PATH Act, the CDFI Fund combined allocation authority for the CY 2015 and CY 2016 rounds ($7.0 billion). This will allow the CDFI Fund to announce the allocation of New Markets Tax Credits in the year for which they are authorized.

NMTC Program Activities to Date

Allocation agreements have been executed with each of the 912 allocatees from the first 12 rounds. As of September 30, 2016, allocatees had reported raising QEIs totaling more than $42.4 billion. This figure represents over 97 percent of the $43.5 billion in allocation authority issued to CDEs to date.

Allocatees report QEI and Qualified Low-Income Community Investment (QLICI) activity to the CDFI Fund through the Allocation Tracking System (ATS) and Community Investment Impact System (CIIS). Allocatees that have raised QEIs are required to report these investments within 60 days via ATS. Within six months of the end of their fiscal year end, CDEs must complete an annual Institution Level Report (ILR) via 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 the chart below represent the allocatees' CIIS data reported for fiscal year 2016 (program year 2015). As shown in the table below, for this program year allocatees reported making over $3.1 billion of loans and investments in Qualified Active Low Income Community Businesses (QALICBs). In FY 2016, allocatees reported that these funds will create 10,932 jobs and funded 26,787 construction-related jobs.

Also in FY 2016, 35.3 percent of the dollars invested were invested in "real estate QALICBs" (i.e., businesses that develop or lease real property for use by others). In addition, 63.2 percent of the dollars were invested in "non-real estate QALICBs" (i.e., operating businesses) in low-income communities and the remaining investments were direct investments into other CDEs. Allocatees also reported providing over $1.9 million in financial counseling and other services to businesses in low-income communities. Adding together all QLICIs yields a grand total of $41.9 billion of cumulative investments was reported in CIIS since 2003.

Unaudited – see accompanying accountants' report

Annual Performance of NMTC Program Allocatees for FY 2016
(Based on Program Activities Reported in 2015)

	Amount
Lending and Investing Activity	
Total Qualified Low-Income Community Investments (QLICIs)	**$3,159,748,110**
Number of QLICIs	1,146
Real Estate Activity (Investments in QALICBs[7])	**$1,116,792,291**
Number of QLICIs	372
Non-Real Estate Activity (Investments in QALICBs)	**$1,995,591,819**
Number of QLICIs	757
Loans/Investments Made to Other Community Development Entities (CDEs)	**$47,364,000**
Number of QLICIs	17
Percent of Loans/Investments in Severely Distressed Communities[8]	**74.53%**
Jobs at Reporting Period End	**10,932**
Projected Construction Jobs	**26,787**
Affordable Housing Units Financed	**660**
Rental Units	369
Owner Units	291
Square Feet of Commercial Real Estate	**10,189,924**
Manufacturing	3,884,887
Office	4,143,600
Retail	2,161,437
Businesses Financed	**530**
Financial Counseling and Other Services	
Total Investments	$1,983,648
Number of Businesses Served	5,522

[7] Qualified Active Low-Income Community Businesses
[8] "Severely distressed" communities include Census tracts with poverty rates above 30 percent; or median family incomes below 60 percent of the metropolitan or state median; or unemployment rates greater than 1.5 times the national average.

Cumulative Performance of NMTC Program Allocatees[9]
(Based on Program Activities Reported in 2003-2015)

	Amount
Lending and Investing Activity	
Total Qualified Low-Income Community Investments (QLICIs)	**$41,904,317,293**
Number of QLICIs	11,520
Real Estate Activity (Investments in QALICBs)	**$21,113,895,275**
Number of QLICIs	5,184
Non-Real Estate Activity (Investments in QALICBs)	**$19,958,799,858**
Number of QLICIs	6,096
Loans/Investments Made to Other Community Development Entities (CDEs)	**$831,622,159**
Number of QLICIs	240
Percent of Loans/Investments in Severely Distressed Communities	**72.27%**
Jobs at Reporting Period End[10]	**275,136**
Projected Construction Jobs	**435,742**
Affordable Housing Units Financed	**13,901**
Rental Units	7,823
Owner Units	6,078
Square Feet of Commercial Real Estate	**178,513,648**
Manufacturing	37,077,404
Office	80,088,464
Retail	61,347,780
Businesses Financed[11]	**5,458**
Financial Counseling and Other Services	
Total Investments	$34,479,746
Number of Businesses Served	51,506

Bank Enterprise Award Program

The Bank Enterprise Award Program (BEA Program) recognizes the key role that traditional financial institutions play in community development lending, investing, and service-related activities. Through the BEA Program, the CDFI Fund provides monetary awards to regulated banks and thrifts for increasing their investments in CDFIs through grants, stock purchases, loans, deposits, and other forms of financial and technical assistance, and for increasing their lending, investment, and service activities in economically distressed communities where at least 30 percent of residents have incomes less than the national poverty level and where the unemployment rate is at least 1.5 times the national unemployment rate. The size of

[9] Numbers of Qualified Low-Income Community Investments (QLICIs) refer to the number of transactions, not the number of New Markets Tax Credit projects

[10] Please note that several outcome measures reflect reductions in cumulative values from prior years, particularly jobs, affordable housing units and square footage, due to reporting changes by allocatees and implementation of more thorough data cleansing rules which eliminated duplicates records from the reported data.

[11] The cumulative estimate of businesses financed nets out those businesses that have reported in multiple years as part of the same project.

the award is a percentage of the increase in activities from one annual reporting period to the next.

Providing monetary awards for reinvestment in distressed communities leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation. The BEA Program is targeted to the most highly distressed areas with larger populations. Of the 74,002 total census tracts under the 2006-2010 American Community Survey data, there were 2,167 fully qualified census tracts and 17,014 were considered partially qualified as distressed communities under BEA Program eligibility criteria.

BEA Program awards are based on the increase in the amount of Qualified Activities from a Baseline Period to a later Assessment Period (the corresponding time in the following year). Qualified Activities consist of financial or technical assistance provided to certified CDFIs, direct investment in the form of loans made by financial institutions in distressed communities (e.g., affordable housing loans, affordable housing development loans, small business loans, small dollar consumer loans, education loans, and commercial real estate loans), and financial services provided in distressed communities (e.g., access to automated teller machines, financial education workshops, individual development accounts, and savings accounts).

Promoting CDFI Investments through the BEA Program

The BEA Program prioritizes three types of activities. The first priority is to increase the financial support provided by FDIC-insured depository intuitions to CDFIs in order to build CDFI self-sufficiency and capacity (referred to as CDFI-Related Activities). The second and third priorities are to encourage FDIC-insured depository institutions to expand their community development lending and investments in severely underserved areas (referred to as Distressed Community Financing Activities and Service Activities, respectively).

The CDFI Fund makes awards to applicants in the CDFI-Related Activities category before making awards to applicants in the Distressed Community Financing Activities category and Service Activities category. 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 conduits for banks to effectively serve highly distressed communities.

Eligibility

All FDIC-insured depository institutions are eligible to apply for a BEA Program award. As stated above, the BEA Program awards actual increases in the dollar volume of Qualified Activities from a Baseline Period to a later Assessment Period. Qualified Activities for each of the three main types of activities include:

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

2) Distressed Community Financing Activities: Direct financing in the form of loans and investments to businesses and/or residents of distressed communities for affordable housing, affordable housing development, commercial real estate development, home improvement, education, small business, and small dollar consumer loans.

3) Service Activities: Deposits, financial services (such as check-cashing, money orders, certified checks, new bank branches, youth accounts), targeted retail savings/investment products (such as electronic transfer accounts - ETAs), targeted financial services (such as individual development accounts - IDAs), or community services provided to low to moderate-income individuals or the institutions serving them (such as financial education seminars).

FY 2016 BEA Program Awards

The CDFI Fund's schedule for opening the FY 2016 BEA Program application round shifted from opening the application round in the fiscal year in which funds were appropriated to the following fiscal year as a result of: (1) a delay in revising the Interim Rule[12] until Spring 2016, (2) BEA Program staff facilitating a PRA review[13] of substantive changes in the BEA Program Application, and (3) working to implement the AMIS for the BEA Program during FY 2016.

BEA Program Evaluation

A great deal of progress was made on the BEA Program Evaluation report in FY 2016. The purpose of this project is to develop baseline information about the history and evolution of the program; as well as to describe the distribution and utilization of BEA Program awards, the areas and populations served, the types of financial products and services provided, and the socioeconomic differences between the eligible BEA Program census tracts and the Community Reinvestment Act eligible tracts.

The study includes primary data collection through a survey of the population of BEA Program applicants and awardees for Award Years 2012-2014, and structured stakeholder interviews of a stratified statistically representative sample of BEA Program applicants and awardees. The primary data collection is designed to gather opinions regarding perceptions of the benefits of the BEA Program, and effects of the program on bank behavior. The study also includes an analysis of available secondary datasets to construct a peer group design, which will guide the development and conduct of more rigorous quantitative evaluations in the future.

Capital Magnet Fund

Through the Capital Magnet Fund (CMF), the CDFI Fund provides competitively awarded grants to CDFIs and qualified non-profit housing organizations. These awards can be used to finance affordable housing activities, as well as related economic development activities and community service facilities. Award Recipients are able to utilize funds to create financing tools such as loan loss reserves, revolving loan funds, risk-sharing loans, and loan guarantees. Organizations that receive Capital Magnet Fund awards are required to produce housing and community development investments at least ten times the award amount, generating a multiplier effect that means that more low-income people and communities nationwide will have housing options within their financial reach.

The Capital Magnet Fund was authorized by Congress through the Housing and Economic Recovery Act of 2008 (HERA). HERA requires the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, to set aside an amount equal to 4.2 basis points for every dollar of their unpaid principal balances of total new business

[12] The proposed changes to the BEA Program application required Interim Rule updates. The Application cannot be released for public comment prior to the revised Interim Rule's publishing in the Federal Register.
[13] The Application will be available for a 60-day comment period, followed by a 30-day OMB review period.

purchases, to be paid to support the Housing Trust Fund (administered by the Department of Housing and Urban Development), the Capital Magnet Fund and the HOPE for Homeowners Program. HERA also provides the Federal Housing Finance Agency (FHFA) with the authority to temporarily suspend these allocations upon certain findings. On November 13, 2008, the Director of the FHFA temporarily suspended the allocation of funds. However, Congress appropriated $80 million for an initial Capital Magnet Fund funding round in FY 2010. No Capital Magnet Fund funding has been appropriated since FY 2010.

On December 11, 2014, the Director of the FHFA terminated the temporary suspension of those allocations, directing Fannie Mae and Freddie Mac to begin setting aside and allocating funds to the Housing Trust Fund and the Capital Magnet Fund. As a result, the CDFI Fund was able to approve Capital Magnet Fund awards in FY 2016. In preparation for these awards, the CDFI Fund published a revised Interim Rule for the Capital Magnet Fund on February 8, 2016.

FY 2016 Capital Magnet Fund Round

The total amount allocated by the GSEs for the FY 2016 Capital Magnet Fund round was $93.5 million. This amount was calculated based on 4.2 basis points for each dollar of Fannie Mae's and Freddie Mac's unpaid principal balances of total new business purchases in calendar year (CY) 2015, of which 25 percent was deposited into a reserve fund for the HOPE for Homeowners Program for FY 2016. The Capital Magnet Fund received 35 percent of the remaining amount available.

The Notice of Funds Availability (NOFA) for the FY 2016 Capital Magnet Fund round was released on February 8, 2016. The CDFI Fund received 125 Applications under this NOFA. On September 22, 2016, the CDFI Fund announced that 32 applicants were selected to receive awards totaling $91.5 million[14]. Twenty-three of the Award Recipients were CDFIs and nine were non-profit housing organizations.

Per the authorizing statute, Award Recipients are required to leverage their awards to produce investments in affordable housing and related economic development activities at least ten times the award amount. This requirement means that FY 2016 Capital Magnet Find Award Recipients will generate over $910 million in public and private investment. Award Recipients project that 70 percent of the funds leveraged through the Capital Magnet Fund will come from private sources.

The 32 Award Recipients plan to develop 17,000 affordable housing units, including more than 15,000 rental units and nearly 2,000 homeownership units. Combined, 93 percent of all housing units will be affordable for Low-Income persons (80 percent of the Area Median Income or below). At least 50 percent of the rental units will be developed for Very Low-Income and Extremely Low-Income persons (50 percent of the Area Median Income or below). Additionally, 19 percent of the Award Recipients plan to undertake Economic Development Activities by financing facilities such as healthcare facilities.

As detailed in the FY 2016 NOFA, the CDFI Fund sought to ensure that the Capital Magnet Fund Award Recipients provided broad geographic coverage through the United States, including Non-Metropolitan areas. The FY 2016 Award Recipients project to serve 38 states (including the District of Columbia) and 28 percent of Award Recipients plan to invest the majority of their Award in Non-Metropolitan Areas.

[14] Amount awarded is net of funds deducted from the amount allocated by the GSEs to administer the Capital Magnet Fund.

Capital Magnet Fund Activities to Date

From the 2010 funding round, the CDFI Fund announced $80 million in competitively awarded grants to 23 CDFIs and qualified non-profit housing organizations serving 38 states. The awards have been used to increase capital investment for the development, preservation, rehabilitation, and purchase of affordable housing for low-, very low-, and extremely low-income families, and for related economic development activities, including community services facilities.

Awardee reports available through September 30, 2016 indicate the following updates on Capital Magnet Fund-financed affordable housing and community development activities, through the end of the awardees' fiscal year 2015:

- 10,895 affordable homes under development or completed with Capital Magnet Fund financing (net addition of 1,008);
  - Affordable rental homes financed: 9,507 (net addition of 694);
  - Affordable homeowner-occupied homes financed: 1,388 (net addition of 314); includes assistance to 728 income-eligible first-time homebuyers;
- Leverage: 1:20 (This ratio does not include leverage from the reinvestment of funds. The target set by Congress was 10 times leveraging.)

CDFI Bond Guarantee Program

The CDFI Bond Guarantee Program was enacted by the Small Business Jobs Act of 2010. Through the program, the Secretary of the Treasury provides a 100 percent guarantee of bonds (including principal, interest, and call premiums) issued by Qualified Issuers. Bonds issued through the program support CDFI lending and investment activity in underserved communities by providing a source of long-term capital. Qualified Issuers use bond proceeds to finance loans to Eligible CDFIs for eligible community and economic development purposes. In the fourth quarter of FY 2016, the CDFI Fund closed two bond transactions and the Secretary issued the corresponding two guarantees under the FY 2016 application round of the CDFI Bond Guarantee Program, totaling $265 million and benefitting four CDFIs.

Since the inception of the program, the total amount of bonds closed and corresponding guarantees is $1.1 billion. A total of 17 Eligible CDFIs and 3 Qualified Issuers participate in the CDFI Bond Guarantee Program. Upon the closing of each bond, the Eligible CDFIs have 5 years to on lend or disburse the bond proceeds. To date, the Eligible CDFIs lent $332.8 million of the $1.1 billion in bonds closed (a 30% disbursement rate) as Secondary Loans in rural, urban, and Native communities in the following asset classes:

- Rental housing: $118.5 million
- Charter schools: $102.3 million
- Commercial real estate: $77.5 million
- Not-for-profit organizations: $15.6 million
- Healthcare facilities: $13.3 million
- Small businesses: $2.9 million
- Daycare centers: $2.7 million.

The capital distribution plans of the Eligible CDFIs project future lending activities in the aforementioned assets classes and the senior living and long-term care, owner-occupied homes, and CDFI to CDFI lending asset classes.

Status of Financial Management

This section includes a description of the CDFI Fund's financial management system, a summary of the results of the FY 2016 financial statement audit, a summary of the financial management initiatives of the CDFI Fund during FY 2016, and a discussion of the CDFI Fund's financial position and results of operations during the past fiscal year.

Description of the CDFI Fund's Financial Management System

The CDFI Fund contracts for accounting services through a franchise agreement with the Bureau of Fiscal Service (BFS) in Parkersburg, West Virginia. While the BFS maintains the accounting system relating to the CDFI Fund's transactions, the CDFI Fund is responsible for the generation of all source documents and the accuracy of all accounting information.

The CDFI Fund's financial management system includes the disbursement transactions maintained by BFS in the accounting system, as well as records maintained and procedures performed by the CDFI Fund's financial management staff in Treasury's Office of the Deputy Chief Financial Officer (DCFO). The CDFI Fund's resource manager and Treasury's DCFO are responsible for the administrative control of its funds, budget formulation and execution, and review and analysis of financial information.

Results of FY 2016 Financial Statement Audit

The FY 2016 audit of the CDFI Fund's financial statements resulted in an unmodified opinion.

FY 2016 Financial Management Initiatives

In FY 2016, financial management focused on implementing budgetary functions into AMIS to initialize payments to award recipients.

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 CIIS data collected from CDFIs include each organization's profile, financial position, portfolio, community impacts, development services, other products and services, and compliance measures. The CIIS data collected from CDEs include each organization's profile, QEI distribution, portfolio, loan purchases, and financial counseling and other services.

Cumulatively through FY 2015, 823 CDFIs reported an ILR, of which 433 reported 462,591 transactions, and 301 CDEs reported 11,520 transactions.

In July 2016, the CDFI Fund released twelve years of data provided by Community Development Financial Institutions (CDFIs) through its data collection system, known as the Community Investment Impact System (CIIS). The data collected covers FYs 2003 through 2014.

The release contains Institution Level Report (ILR) data on 777 CDFIs that have reported to CIIS. In general, these CDFIs have provided information on their operation, financial status, and impact in their communities. A previous data release in 2015 consisted of ILR data on 728 CDFIs that had reported to CIIS from FY 2003 through 2013.

Additionally, Transaction Level Report (TLR) data was also released to the public detailing how CDFIs provide loans or investments in low-income communities. The data file includes the features and location of over 400,000 individual loans and investments totaling more than $29 billion made by 401 CDFIs. A previous data release in 2015 consisted of TLR data on 370 CDFIs that had reported to CIIS from FY 2003 through 2013.

In September 2016, the CDFI Fund released a report and transactional and project level data on the NMTC Program for the 2002-2014 reporting years. The report details how $38.5 billion in tax credits have been invested in revitalizing low-income communities throughout the nation. NMTCs were utilized in over 3,755 businesses and 6,289 real estate investments across the country. Of the Qualified Low-Income Community Investments (QLICIs) made, the cumulative distribution is as follows:

- 6,289 (61.4 percent of total) QLICIs totaling $25,752,420,354 (66.9 percent of total), were made in real estate development and leasing activities.

- 3,755 (36.7 percent of total) QLICIs totaling $12,098,992,430 (31.4 percent of total) were made in operating businesses.

- 171 (1.7 percent of total) QLICIs totaling $626,355,594 (1.6 percent of total) were investments in other CDEs.

To maintain its practice of agency transparency, the CDFI Fund released a breakdown of all NMTC investments reported to the CDFI Fund through fiscal year (FY) 2013. The data release is available for use by academics, researchers, and the general public.

In order to comply with the Privacy Act, any personal information identifying borrowers as well as their race, gender, etc., has been suppressed. In addition, in order to ensure the anonymity of borrowers and investors all location information has been limited to city, state, and five-digit zip code. Additional safeguards are also in place.

Use of Grants.gov for Paperless Processing of Grant Applications

The Federal Financial Assistance Management Improvement Act (FFAMIA) requires all Federal grant-making agencies to migrate 100 percent of their electronic grant program applications to the Grants.gov system administered by the Department of Health and Human Services. In FY 2016, the CDFI Fund achieved 100 percent compliance with the FFAMIA. The CDFI Fund received 717 award applications, and all applications were received through Grants.gov. The CDFI Fund intends to continue working with

Grants.gov for the receipt of all future award applications.

Migration to an Award Management Information System for Internal Application Processing

The CDFI Fund expanded use of AMIS to include the CDFI, NACA, and CMF program rounds for FY 2016 with implementation being completed in FY 2017. With the deployment of AMIS, the CDFI Fund expects to be able to handle larger volumes of grants, tax credits, and loan portfolios while achieving more transparency and better data quality, and providing better service to customers.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (DATA Act) was enacted in May 2014 to accomplish the following objectives:

- Expand the Federal Funding Accountability and Transparency Act of 2006 and its 2008 amendments by disclosing direct Federal agency expenditures and linking Federal contract, loan, and grant spending information to programs of Federal agencies, enabling taxpayers and policy makers to track Federal spending more effectively
- Establish Government-wide data standards for financial data and provide consistent, reliable, and searchable Government-wide spending data that is displayed accurately for taxpayers and policy makers on USASpending.gov (or a successor system that displays the data)
- Simplify reporting for entities receiving Federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency
- Improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted
- Applied approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.

To fulfill its purpose, the Data Act imposes certain requirements on CDFI Fund award recipients including, but not limited to, the following:

- Maintaining active accounts in the System for Award Management (SAM)
- Identifying the CDFI's headquarters and the locations where most of their activities are concentrated
- Providing information about any first-tier sub-awards
- Providing information about the compensation of the five most highly paid people within the organizations (subject to certain thresholds)

In order to comply with these requirements, the CDFI Fund includes the standard award terms as stipulated by the Data Act in its assistance agreements and monitors the data quality of the information provided to the USASpending.gov through the Federal Assistance Award Database System Plus. In addition, the CDFI Fund has developed complementary guidance and highlights Data Act reporting requirements during post-award web seminars for all of the grant programs at the CDFI Fund to include the CDFI Program, the NACA Program, the CMF, and other programs that Congress may authorize and appropriate for the CDFI Fund to administer.

Improper Payments Elimination and Recovery Act of 2010 (IPERA)

During fiscal year (FY) 2010, President Obama placed renewed emphasis on the reduction of improper payments beginning with Executive Order 13520, Reducing Improper Payments, issued on November 20, 2009. On July 22, 2010, President Obama signed into law the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. 111-204). IPERA amended IPIA, generally repealing the Recovery Audits Act (31 U.S.C. §§ 3561-3567, within the Defense Authorization Act of FY 2002), and significantly increasing agency payment recapture efforts by expanding the types of payments that are in scope for review and lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs.

In the spring of FY 2011, OMB issued Memorandum M-11-16, Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, dated April 14, 2011, and Part III (which was issued in March 2010 as OMB Memorandum M-10-13) are modified. These amendments are incorporated within this guidance in Section A, Improper Payments Elimination and Recovery, of OMB M-11-16; and the revisions to the repealed Recovery Audits Act are found in Section B, Payment Recapture Audits.

On January 10, 2013, the President signed into law the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). These laws revise portions of the Improper Payment Elimination and Recovery Act of 2010 and were effective starting in FY2014. The CDFI Fund works with the Bureau of Fiscal Service and Departmental Offices to prevent and recapture improper payments.

Effective fiscal year 2014 and beyond, OMB issued Memorandum M-15-02, modifying OMB, Circular A-123, Appendix C, Parts I and II, identifying requirements for effective estimation and remediation of improper payments.

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

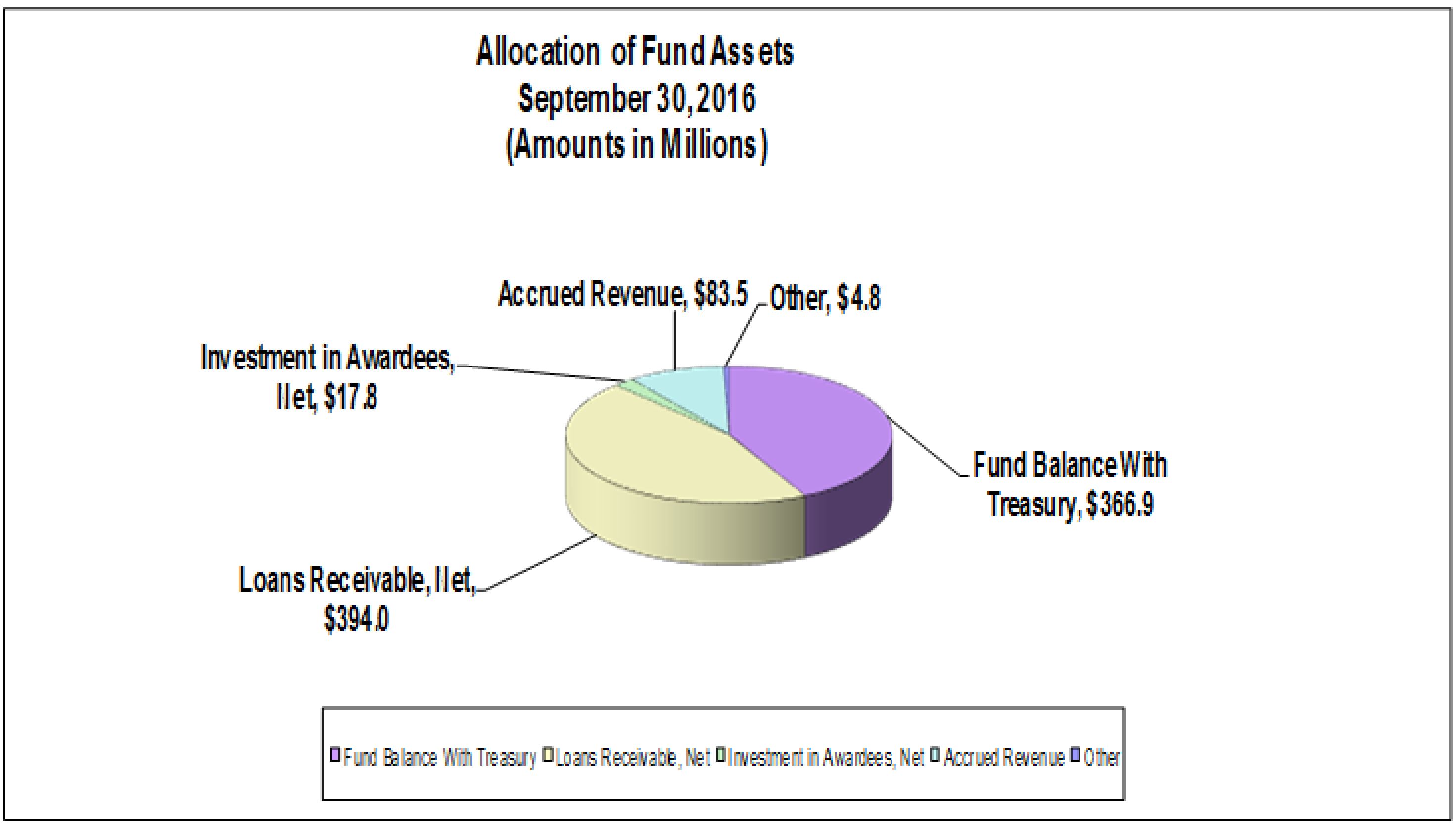
The financial statements report the financial position, results of operations, changes in net position, and cash flows of the CDFI Fund as of and for the fiscal years ending on September 30, 2016 and 2015, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from 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 2016	FY 2015	Increase / (Decrease)
Assets	$867.0	$458.9	$408.1
Liabilities	$400.9	$215.1	$185.8
Net Position	$466.1	$243.8	$222.3
Revenue and Financing Sources	$386.2	$227.0	$159.2
Expenses	$204.9	$230.4	($25.5)
Excess (Shortage) of Revenue and Financing Net Gain (Net Loss)	$181.3	($3.4)	$184.7

Allocation of Fund Assets September 30, 2016



Unaudited – see accompanying accountants' report

Assets

Assets increased by $408.1 million during FY 2016. Loans receivable increased $204.1 million due to new loans issued in FY 2016 under the CDFI Bond Guarantee Program and the CDFI FA Program. In addition there was a $119.1 million increase in the Fund Balance with Treasury due to appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments. An $83.5 million increase in Accrued Revenue was due to an accrual of the FY 2016 portion of Government Sponsored Enterprise (GSE) fees owed to the CDFI Fund that will be paid in 2017 to fund the Capital Magnet Fund.

Fund Balance with Treasury

The Fund Balance with Treasury (FBwT) reflected a $119.1 million increase from the prior year, due to differences in the timing of when appropriation revenue is received versus when expenses are paid. Restricted funds from Special and Trust Funds relate to the Capital Magnet Fund, and are used to carry out competitive award grants to Community Development Financial Institutions (CDFIs) and qualified Non-Profit Housing Organizations. An amount obligated in FBwT for the Capital Magnet Fund totaled $100.3 million and $0 as of September 30, 2016, and 2015, respectively.

Loans Receivable

Loans receivable are increased when loan awards (under the CDFI, NACA and CDFI Bond Guarantee programs) are disbursed and decreased for loan repayments and loan write-offs. During FY 2016, net loans increased by $204.1 million resulting, in part, from new loans of $212.2 million offset by loan repayments of $8.9 million.

Investments

The CDFI Fund currently holds four types of investments with net balances as follows:

- Non-voting equity securities - $14.3 million
- Convertible subordinated debt - $0.6 million
- Limited partnerships - $0.7 million
- Secondary Capital - $2.2 million

The primary source of financial data used for the majority of assessments is the most recent audited financial statements of the investees. These assessments determine whether any other–than–temporary impairments should be recognized. Two investments totaling $54,048 and one investment totaling 767,316 at September 30, 2016 and 2015, respectively were determined to be other than temporarily impaired and were written down.

Accrued Revenue

Accrued revenue reflected an $83.5 million increase from the prior year, due to an accrual made at year end in FY 2016 to anticipate the collections of GSE fees due to the CDFI Fund.

Liabilities

The increase in liabilities during the year of $185.8 million consisted primarily of an increase in debt of $205.1 million partly offset by a decrease in awards payable of $18.0 million.

Debt
During FY 2016, the CDFI Fund borrowed $216.0 million for new loans, $1.5 million due to a downward subsidy re-estimate and $1.0 million to meet annual interest payments due to the Treasury Department, at interest rates ranging from 1.92% to 6.36%, depending on maturity dates or risk categories. The CDFI Fund borrowing was partly offset by the repayments of amounts borrowed from Treasury totaling $13.4 million. 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.

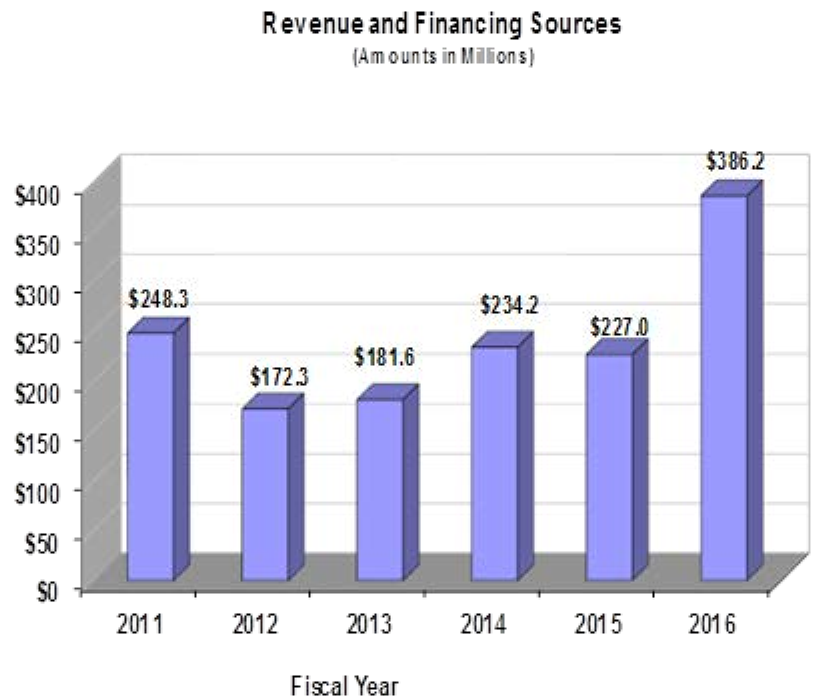
Awards Payable
The decrease in awards payable resulted from the Bank Enterprise Award Program not making their award announcements in FY 2016.

Net Position

Net position increased during the year by $222.3 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 CDFI Fund's subsidy re-estimate; and 3) the excess (shortage) of revenue and financing sources over (under) expenses. During FY 2016, appropriations received and appropriations for subsidy re-estimate (net of amounts cancelled, rescinded and downward subsidy re-estimate) were $230.5 million, and appropriated capital used was $189.5 million resulting in an increase in net position of $41.0 million. This increase in net position was increased by the $181.3 million gain recorded by the CDFI Fund in FY 2016, of which $183.8 million is attributable to GSE fees collected and accrued. The Cumulative Results of Operations – Capital Magnet Fund is composed entirely of restricted funds. Under federal statute, these funds have been specifically identified and are only designated for activities, benefits, or purposes of the Capital Magnet Fund.

Revenue and Financing Sources

One source of revenue and financing for the CDFI Fund is the annual appropriation used to fund expenses ("appropriated capital used" as reflected in the statement of operations). Consistent with generally accepted accounting principles (GAAP), the amount of appropriated funds recognized as revenue is, with certain adjustments, equal to the amount of operating expenses for the year. Additionally, $183.8 million recognized in FY 2016 is attributed to Government Sponsored Entities (GSE) fees received in FY 2016 for the Capital Magnet Fund including $83.9 million accrued for anticipated FY 2017 fee collections.



Expenses

The change in the CDFI Fund's operating expenses, during FY 2016 consisted of the following:

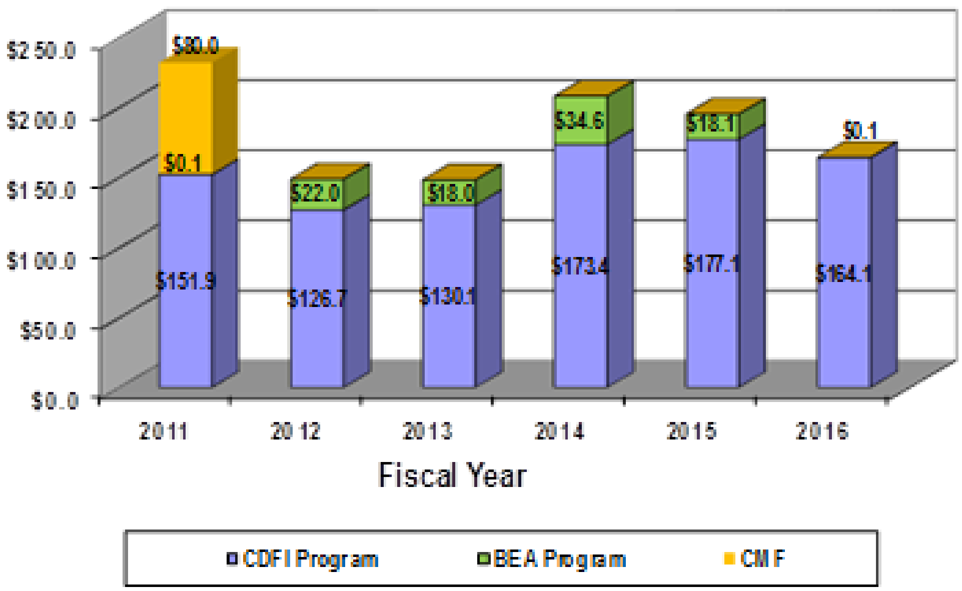
Comparison of Operating Expenses Excluding Administrative Expenses Paid by Others
Fiscal Years 2016 and 2015
(Amounts in Millions)

	FY 2016	FY 2015	Difference
Award Expenses	$164.2	$195.2	($31.0)
Administrative Expenses	$27.7	$25.3	$2.4
Bad Debt Expense	($0.9)	$1.9	($2.8)
Total Operating Expenses	$191.0	$222.4	($31.4)

Award Expenses

Award expenses during the year decreased $31.0 million. CDFI Program award expenses decreased $12.9 million and BEA award expenses decreased $18.0 million due to the timing of the awards; FY 2015 BEA awards were announced in FY 2015, whereas FY 2016 BEA awards were not announced in FY 2016.

Award Expenses
(Amounts in Millions)



Administrative Expenses
Administrative expenses increased by $2.4 million during FY 2016. This increase was primarily due to a $0.8 million increase in contractual services with external parties, an increase of $0.7 million for contractual services with other agencies, and a $0.8 million increase for personnel compensation and benefits.

Bad Debt Expense
Bad debt expense is a function of the impairment related to loans receivable at year-end including the impact of certain loan restructurings made during the year. The CDFI Fund performs an analysis process that includes an individual review of all loans using an asset to liability ratio from the awardees' most recent financial statements. Bad debt expense decreased during FY 2016 by $0.9 million due to a decrease in delinquent and impaired loans. As the Secretary of the Treasury issues guarantees for the full amount of bond issues to support BGP loans, CDFI does not bear any BGP loan defaults, accordingly, no allowance is recognized with respect to BGP loans.

Net Gain

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, with the exception of the $183.8 million in revenue from GSE fees received and accrued in FY 2016 for the Capital Magnet Fund. Accordingly, the excess (shortage) will consist of the amount by which revenue and financing sources, other than appropriated capital used, exceeds expenses. For FY 2016, expenses totaled $12.9 million, consisting of interest expense on Treasury borrowings. Interest and dividend income totaled $11.7 million.

Independent Auditors' Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury

Director
Community Development Financial Institutions Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund as of September 30, 2016 and 2015, and its results of operations, changes in net position, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Community Development Financial Institutions Fund Overview, Program Discussion and Analysis, and Status of Financial Management sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of the CDFI Fund's internal control over financial reporting and our report dated November 14, 2016 on 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 result 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* in considering CDFI Fund's internal control over financial reporting and compliance.

KPMG LLP

November 14, 2016

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General
U.S. Department of the Treasury

Director
Community Development Financial Institutions Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the CDFI Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDFI Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDFI Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Appendix A, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Appendix A below to be a material weakness.

KPMG

CDFI Fund's Response to Finding

The CDFI Fund's response to the material weakness identified in our audit is described in Appendix B. The CDFI Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the CDFI Fund's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CDFI Fund's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 14, 2016

Appendix A - Material Weakness

Financial Management and Communication Deficiency

CONDITION

Upon receipt of the draft financial statements on October 18, 2016, we identified that significant and unusual transactions related to revenue from government sponsored enterprises (GSE) fees were, in part, incorrectly presented in the draft financial statements and inadequately disclosed in the footnotes. The timing and amount of the revenue recognized was not in accordance with the generally accepted accounting principle (GAAP) of accrual accounting. The underlying transactions occurred in February of 2016. During the interim stages of the audit, management provided KPMG with a draft of the accounting transaction posting logic for the GSE fees in support of the Capital Magnet Fund (CMF). This excluded any concept of the treatment of anticipated collections or any broader revenue recognition considerations. Management did not provide draft pro-forma financial statements when requested by KPMG on August 1, 2016 and in lieu of such stated that they did not anticipate changes being made in the presentation from the prior year financial statements.

CRITERIA

The Federal Management Financial Integrity Act requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the GAO *Standards for Internal Control in the Federal Government* (GAO Standards). These standards define internal control as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. GAO Standards state that internal controls should generally be designed to assure that on-going monitoring occurs in the course of normal operations. Management is responsible for developing control activities, which are the policies, procedures, techniques, and mechanisms that enforce management's directives and help ensure actions address risks. The activities include reviews by management at the functional or activity level, proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control.

The GAO Standards also state that information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it. Examples include: receiving updated guidance from central oversight agencies; management communicating requirements to the operational staff; operational staff communicating with the information systems staff to modify application software to extract data requested in the guidance.

GAO Standards also states that management should establish expectations of competence for key roles, and other roles at management's discretion, to help the entity achieve its objectives. Competence is the qualification to carry out assigned responsibilities. It requires relevant knowledge, skills, and abilities which are gained largely from professional experience, training, and certifications. It is demonstrated by the behavior of individuals as they carry out their responsibilities.

CAUSE

The CDFI Fund financial statements are presented in accordance with accounting standards published by the Financial Accounting Standards Board (FASB), yet management, during the course of its reviews of the financial statements, did not initially identify the unique inconsistencies between the financial reporting framework adopted and the reporting of significant and unusual transactions in the GAAP financial statements. Further, there is inadequate communication and coordination between the Fund's relevant organizational functions. Management had focused on the budgetary side of these transactions while they were still considering the likely proprietary impacts of such transactions. Management was initially uncertain as to the presentation of non-exchange revenue under FASB (a uniquely governmental transaction; not a commercial concept), as it does not lend itself to the traditional application of the matching principle pertaining to revenues and expenses.

EFFECT

The unique characteristics of this program led to management's failure to recognize accrued GSE fee revenue totaling $83.5 million in a timely manner and report such revenue in the draft financial statements. This resulted in omissions of material financial data in the draft September 30, 2016 financial statements and inadequate or incomplete footnote disclosures. This internal control deficiency presents a reasonable possibility that a material misstatement in CDFI Fund's financial statements will not be prevented or detected on a timely basis. Processes and controls addressing both budgetary and proprietary impacts of transactions are critical for the preparation of its financial statements and for effective internal control over financial reporting.

RECOMMENDATIONS

We recommend that CDFI Fund management:

1. Evaluate and enhance resources as needed with required commercial accounting qualifications to supplement existing resources, and/or provide training to improve the overall core competencies of key financial management personnel. FASB technical knowledge coupled with knowledge of the programmatic and legal impact is needed to address and monitor accounting and reporting of transactions in the CDFI Fund's financial statements in conformity with GAAP.

2. Revisit and enhance the process by which management analyzes and selects the suitable accounting policies relevant to the operations of the Fund.

3. Increase the depth, frequency and extent of management's communications across the relevant organizational functions to better facilitate the sharing of information that is relevant and material to CDFI Fund's operations and financial reporting.

Appendix B – Management's Response

Management expressed its appreciation for the opportunity to review and analyze the findings and recommendations. Management noted that it continuously seek to improve internal controls over financial reporting in an efficient, effective, and cost effective manner given budgetary constraints as well as unique reporting requirements. Management stated that it will implement the Recommendations stated herein. Management will continue to invest in accounting staff training, and, while management believe that communication is already strong within the organization, agreed it can be improved. Management further noted that it will re-emphasize cross-functional communication when new programs or unusual accounting transactions arise.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Compliance and Other Matters

Inspector General
U.S. Department of the Treasury

Director
Community Development Financial Institutions Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDFI Fund's financial statements are free from material misstatement, we performed tests of its 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 financial statement amounts. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the CDFI Fund's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CDFI Fund's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 14, 2016

Financial Statements and Notes

Community Development Financial Institutions Fund
Statements of Financial Position
As of September 30, 2016 and September 30, 2015

		2016		2015
Assets				
Fund Balance with Treasury (Note 4)	$	366,897,227	$	247,847,169
Advances and prepayments		-		748
Loans Receivable, Net of Allowance for Bad Debts (Note 5)		394,005,024		189,870,979
Investments, Amortized Cost (Note 6)		2,763,005		2,694,766
Investments, Cost Method (Note 8)		14,326,252		13,881,383
Investments, Equity Method (Note 9)		749,041		1,103,333
Interest and Other Receivables		482,360		492,540
Accrued Revenue (Note 15)		83,500,000		-
Internal-use Software, Net of Accumulated Amortization		4,243,270		831,904
Internal-use Software In Development		38,156		2,204,706
Total Assets	$	867,004,335	$	458,927,528
Liabilities and Net Position				
Accounts Payable	$	1,170,735	$	2,615,959
Awards Payable		1,610,025		19,590,783
Accrued Payroll		444,506		342,391
Accrued Annual Leave		733,504		707,168
Due to the General Fund (Note 10)		40,000		40,000
Debt (Note 11)		396,895,128		191,814,231
Total Liabilities	$	400,893,898	$	215,110,532
Unexpended Appropriations (Note 13)	$	272,860,385	$	231,850,196
Cumulative Results of Operations - All Other Funds		9,458,032		11,966,800
Cumulative Results of Operations - Capital Magnet Fund (Note 15)		183,792,020		-
Total Net Position		466,110,437		243,816,996
		-		-
Total Liabilities and Net Position	$	867,004,335	$	458,927,528

The accompanying notes are an integral part of these financial statements.

Community Development Financial Institutions Fund
Statements of Operations and Changes in Net Position
For the Years Ended September 30, 2016 and September 30, 2015

		2016		2015
Revenue and Financing Sources:				
Appropriations	$	189,477,389	$	220,339,387
Imputed Other Income (Note 14)		828,666		705,258
Interest, Non-Federal		6,935,155		5,408,143
Interest, Federal		4,657,773		262,078
Dividends		75,280		75,273
Government Sponsored Enterprise Fees (Note 15)		183,792,020		-
Other		219,837		175,311
Equity in Gain of Associates, Net		191,108		30,234
Total Revenue and Financing Sources		386,177,228		226,995,684
Expenses:				
CDFI Grants	$	164,128,093	$	177,043,620
BEA Grants		103,923		18,116,961
Administrative Expenses (Note 16)		27,722,176		25,252,465
Bad Debt Expense/(Reversal)		(918,276)		1,918,691
Administrative Expenses Paid by Others (Note 14)		828,666		705,258
Total Operating Expenses		191,864,582		223,036,995
Interest Expense, Federal		12,975,346		6,552,054
Impairment Losses		54,048		767,316
Total Expenses		204,893,976		230,356,365
Net Income/(Loss)	$	181,283,252	$	(3,360,681)
Cumulative Results of Operations, Beginning of Year	$	11,966,800	$	15,327,481
Net Income/(Loss)		181,283,252		(3,360,681)
Cumulative Results of Operations, End of Year	$	193,250,052	$	11,966,800

The accompanying notes are an integral part of these financial statements.

Community Development Financial Institutions Fund
Statement of Cash Flows
For the Years Ended September 30, 2016 and September 30, 2015

	2016	2015
Cash Flows from Operating Activities:		
Net Gain/(Loss)	$ 181,283,252	$ (3,360,681)
Adjustments to Reconcile Net Gain/(Loss) to Net Cash Provided by/(used in) Operations:		
Impairment Losses	54,048	767,316
Equity in Income of Associates	(191,108)	(30,234)
Amortization Expense	341,341	211,869
Accretion of Discount	(68,239)	(68,239)
Bad Debt Expense/(Reversal)	(918,276)	1,918,691
Change in Assets and Liabilities:		
Decrease in Advances and Prepayments	748	-
Decrease/(Increase) in Interest and Other Receivables	10,169	(15,485)
(Increase) in Accrued Revenue	(83,500,000)	-
Increase/(Decrease) in Accounts Payable, Accrued Payroll, & Due to General Fund	(1,343,110)	707,968
(Decrease) in Awards Payable	(17,980,758)	(349,169)
Increase in Accrued Annual Leave	26,336	143,148
Net Cash Provided by/(used in) Operating Activities	77,714,403	(74,816)
Cash Flows from Investing Activities:		
Proceeds from Redemption of Investments	$ -	$ 25,000
Proceeds from Distribution from Investments	545,400	81,564
Purchases of New Investments	(498,917)	(1,093,929)
Internal-use Software	(1,586,157)	(1,773,000)
Loans Disbursed	(212,202,140)	(104,292,184)
Collection of Loan Principal	8,986,382	6,289,751
Net Cash used in Investing Activities	(204,755,432)	(100,762,798)
Cash Flows from Financing Activities:		
Increase in Unexpended Appropriations, Net	$ 41,010,188	$ 6,441,820
Borrowings from Federal Financing Bank	206,153,189	88,698,478
Borrowing Re-payments to Federal Financing Bank	(3,756,822)	(1,153,438)
Borrowings from Treasury	12,318,556	19,130,431
Borrowing Re-payments to Treasury	(9,634,024)	(6,060,129)
Net Cash Provided by Financing Activities	246,091,087	107,057,162
Net Change in Fund Balance with Treasury	119,050,058	6,219,548
Fund Balance with Treasury, Beginning of Year	247,847,169	241,627,621
Fund Balance with Treasury, End of Year	$ 366,897,227	$ 247,847,169

The accompanying notes are an integral part of these financial statements.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes to Financial Statements

September 30, 2016 and 2015

(1) Description of Reporting Entity

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

The CDFI 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 CDFI Fund's mission is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

The major programs operated by the CDFI 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 Award Program, Native Initiatives, the Capital Magnet Fund and the Community Development Financial Institutions Bond Guarantee Program.

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.

Under the New Markets Tax Credit (NMTC) Program, the CDFI 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 CDFI Fund’s grant programs, the allocation of tax credits to CDEs has no effect on the financial statements of the CDFI Fund.

The Bank Enterprise Award (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 CDFI Fund’s limited dollars are effectively leveraged with private capital.

Through the Native American CDFI Assistance (NACA) Program, a component of the Native Initiatives, the CDFI Fund provides grants to help create CDFIs and to build the capacity of existing Native CDFIs that serve primarily Native American, Alaska Native, and Native Hawaiian communities.

The Capital Magnet Fund (CMF) provides competitively awarded grants to Community Development Financial Institutions (CDFIs) and qualified Non-Profit Housing Organizations. These awards can be used to finance affordable housing activities, as well as related economic development activities (including community service facilities). Award Recipients are able to utilize funds to create financing tools such as loan loss reserves, revolving loan funds, risk-sharing loans, and loan guarantees. Organizations that receive CMF awards are required to provide housing and community development investments at least ten times the award amount.

The CDFI Bond Guarantee Program was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) on September 27, 2010. The CDFI Fund administers the program, and the Secretary of the Treasury issues guarantees for the full amount of bonds issued to support CDFIs that make investments for eligible community or economic development purposes. The bonds support CDFI lending and investment by providing a source of long-term, patient capital to CDFIs.

(2) Limitations of the Financial Statements

The financial statements report the financial position, results of operations, changes in net position, and cash flows of the CDFI Fund as of and for the fiscal years ending on September 30, 2016 and 2015, 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.

(3) Summary of Significant Accounting Policies

(a) 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. SFFAS 34, issued by FASAB, provides authoritative guidance allowing federal entities to prepare financial statements in conformance with accounting and reporting principles issued by the Financial Accounting Standards Board (FASB). Accordingly, the CDFI Fund financial statements are presented in accordance with accounting standards published by FASB.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant items subject to such estimates include allowance for bad debts and the identification and valuation of investment impairments.

(c) Fund Balance with Treasury

The CDFI Fund does not maintain cash in commercial bank accounts. The Treasury Department processes cash receipts and disbursements. Fund Balance with Treasury is composed of appropriated and borrowed funds (financing and program accounts) that are available to pay liabilities and finance authorized award and purchase commitments. Also included are restricted funds from Government Sponsored Enterprises used to finance activities for the Capital Magnet Fund.

(d) Loans Receivable, net of Allowance for Bad Debts

Loans receivable relate to direct loans made to certain CDFI Program awardees and CDFI Bond Guarantee recipients and are recorded at face value on the closing date. Direct and incremental loan costs are deemed to be de minimis. Any interest is recognized over the life of the loan, when earned. Amounts collected on loans receivable are included in cash flows from investing activities in the statements of cash flows.

The allowance for bad debts is the CDFI Fund's best estimate of the amount of credit losses in the CDFI Fund's existing loans. The allowance comprises specific loan analysis that considers portfolio level historical loss experience adjusted for current factors. The historical loss experience is based on actual loss history experienced by the CDFI Fund since inception of the loan portfolio. This actual loss experience is supplemented with other qualitative factors including delinquencies, asset to liability ratios of borrowers, and consideration of the number of historical loan restructurings. The allowance includes observable and non-observable impairments. A loan is considered impaired if it is probable that the CDFI Fund will not collect all principal and interest contractually due. In order to calculate the impairment amount for each loan, the borrower asset to liability ratio is reviewed and mapped to Standard and Poor's published default rates. The default rates represent the portion of each loan that is considered impaired. The impairment represents the present value of the expected future cash flows discounted at the loan's effective interest rate. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

During fiscal years 2016 and 2015, the CDFI Fund received requests from a number of awardees requesting an extension of their maturity dates. The requests were processed in collaboration with the Department of the Treasury Office of the Deputy Chief Financial Officer (DCFO). A restructuring of a loan constitutes a troubled debt restructuring for purposes of FASB ASC-310-40 if the creditor grants a concession to the debtor that it would not otherwise consider. While the loan extensions are being processed, awardees do not make principal payments. The CDFI Fund continues to accrue and collect interest on all loans that are under restructuring subject to determination about eventual collectability.

(e) Investments

The CDFI Fund provides assistance to certain for-profit CDFI program awardees by purchasing various investments described below. The CDFI Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. Held-to-maturity debt securities are those debt securities in which the CDFI Fund has the ability and intent to hold the security until maturity. None of the investments meet the criteria for Variable Interest Entity Accounting.

- Non-voting Equity Securities: These investments are carried at original cost subject to other-than-temporary impairments.
- Secondary Capital Interests: These interests are held-to-maturity and carried at amortized cost, net of applicable discounts, subject to other-than-temporary impairments.
- Convertible Subordinated Debt: This instrument exhibits sufficient characteristics of an equity security as the CDFI Fund is entitled to any dividends in the non-voting common stock as if the CDFI Fund had converted the debentures into such stock prior to the declaration of the dividend. This investment is held-to-maturity and carried at amortized cost, net of applicable discounts, subject to other-than-temporary impairments.
- Limited Partnership Interests: These interests are carried in accordance with the equity method of accounting by recognizing the pro-rata share of investee profit/loss through the statement of operations. Investments are further subject to assessment of any other-than-temporary impairments as discussed below.

Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization of premiums or discounts. Premiums and discounts are amortized over the life of any related held-to-maturity security as an adjustment to yield using the straight-line method.

For non-voting equity securities and limited partnerships, a decline in the fair value of any security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine if an impairment is other-than-temporary, the CDFI Fund considers whether (1) it has the ability and intent to hold the investment until a market price recovery and (2) evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the industry in which the investee operates.

(f) Interest and Other Receivable

Interest is accrued on the outstanding loans receivable principal balances and investments based on stated rates of interest as earned and when determined collectible. Interest is not accrued past the maturity date of loans receivable and investments.

(g) Accrued Revenue

Revenue is accrued in anticipation of collections fees from Government Sponsored Entities (GSEs), comprised of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) to fund the Capital Magnet Fund. In FY 2016 $83.5 million was accrued for 9 months of anticipated collections to be received in FY 2017. The Q3 10Q filings of Fannie Mae and Freddie Mac were used as a basis to calculate the accrual.

(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, census tracts and counties, and enables applicants to determine the funding eligibility of census tracts and counties under the CDFI Fund’s various programs; and 3) the Community Investment Impact System (CIIS) – a web-based data collection system for CDFIs and CDEs.

The software is amortized using the straight-line method over the estimated useful life ranging from seven to ten years. Amortization expense for the years ended September 30, 2016 and 2015 was $341,341 and $211,869, respectively.

(i) Internal-Use Software in Development

Internal-use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Costs for developing internal-use software are accumulated in internal-use software in development until a project is placed into service, and testing and final acceptance are successfully completed. Once completed the costs are transferred to internal-use software.

(j) Leases

At the beginning of each fiscal year the CDFI Fund obtains the estimated annual amount for all operating leases. The CDFI Fund then establishes an obligation to be recorded within the financial system for the full amount of the estimate. The CDFI Fund approves each monthly Intra-governmental Payment and Collection transaction and submits the approved form to the Bureau of the Fiscal Service (BFS) for processing on a monthly basis. Rent payments are recognized on a straight-line basis over the term of the lease.

(k) Awards Payable

CDFI Program grant expense is recognized and awards payable are recorded when the CDFI Fund is made aware, in writing, that the awardee has met the conditions required for payment and the CDFI Fund approves a grant disbursement to be made. BEA Program grant expense is recognized and awards payable are recorded when the CDFI Fund approves the BEA award to be made (i.e. at the time the funds are obligated) as the banks being awarded funds have already performed the required service in order to receive an award.

(l) 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. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2016 and 2015 was $1,115,127 and $972,952, respectively.

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 CDFI 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). Additionally a 1% contribution is automatically made to TSP by the CDFI fund for each employee. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2016 and 2015 was $387,226 and $349,009, respectively.

In addition, CDFI Fund employees participating in CSRS have 7% of their base salary withheld which is contributed into a Retirement Fund. The CDFI Fund contributes the same amount into the Retirement Fund. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2016 and 2015 was $4,818 and $25,059, respectively.

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

(m) 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.

(n) Debt

Debt represents borrowings payable to the Treasury Department and the Federal Financing Bank that were made to fund direct loans made by the CDFI Program and other aspects of permissible borrowing authority. The borrowings payable related to Treasury are for the subsidies incurred on direct loans. The borrowings payable related to the Federal Financing Bank represent the principal loans balances disbursed under the CDFI Bond Guarantee Program. Principal repayments to the Treasury Department are required to be made based on the scheduled collections of loans receivable and are due September 30 of each year of maturity. See Note 11 for more information and disclosures related to debt and other borrowings.

(o) Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the obligation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The CDFI Fund currently has no contingent liabilities meeting the disclosure or recognition thresholds.

(p) Revenue and Other Income

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

The CDFI Fund also receives fees from Government Sponsored Entities (GSEs), comprised of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) under the Housing and Economic Recovery Act of 2008 (HERA) for use of funding the Capital Magnet Fund. FY 15 fees were recorded on a cash basis as the CDFI fund did not have knowledge or certainty of the fees being collected to record a proper accrual at year end 2015. The FY16 fees were recorded on an accrual basis as the fee were considered recognized and estimable.

Occasionally, the CDFI Fund receives dividends on its equity investments and may use those funds for awards and operating expenses. Dividends are recognized when earned.

Additional revenue is obtained from interest received on direct loans and on uninvested funds held by the Treasury Department. Interest is recognized when earned and determined to be collectible.

(q) Tax Status

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

(r) Fair Value Measurements

The CDFI Fund applies the provisions of ASC Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair values measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This standard defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the CDFI Fund has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

See Note 7 for more information and disclosures relating to the CDFI Fund's fair value measurements.

(4) Fund Balance with Treasury

Fund Balance with Treasury (FBwT) as of September 30, 2016 and 2015 consisted of the following components:

	2016	2015
Available	$ 37,135,286	$ 8,889,698
Obligated	314,366,058	229,540,747
Expired	15,395,883	9,416,724
	$ 366,897,227	$ 247,847,169

FBwT includes appropriated, borrowed funds and restricted funds available to pay liabilities and finance authorized award and purchase commitments. The expired funds reflect appropriated funds that are no longer available for obligation, but can be used to pay liabilities; expired funds cancel after 5 years and are no longer available for use. Restricted funds from Special and Trust Funds relate to the Capital Magnet Fund, and are used to carry out competitive award grants to Community Development Financial Institutions (CDFIs) and qualified Non-Profit Housing Organizations. An amount obligated in FBwT for the Capital Magnet Fund totaled $100.3 million and $0 as of September 30, 2016, and 2015, respectively.

(5) Loans Receivable

The CDFI Fund assesses and monitors the credit quality of its loans on an ongoing basis using audited financial statements of awardees, unaudited disclosures and IRS 990 forms. Loans receivable are disaggregated by general recourse versus asset-backed loans. Asset-backed loans represent loans issued in conjunction with the Bond Guarantee Program.

The CDFI Fund is exposed to several risk factors related to its general recourse loans receivable:

- Risk of a deteriorating economic climate and its impact on the CDFI Fund's collection of loans.
- Economic, industry, and geographic risks associated with unsecured loans to small financial institutions.

All amounts due and payable under the loans issued through the Bond Guarantee Program are guaranteed by the United States of America, acting through the Secretary of the Treasury, thus the possibility of a loss is remote.

The CDFI Fund's loan portfolio as of September 30, 2016 and 2015, delineated by delinquency category is as follows:

As of September 30, 2016

	30-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Current	Total Financing Receivables
General Recourse	$ -	$ -	$1,356,256	$74,494,299	$75,850,555
Asset-backed	-	-	-	327,674,989	327,674,989
	$ -	$ -	$1,356,256	$402,169,288	$403,525,544
Less Allowance for Bad Debt					9,520,520
Total					$394,005,024

As of September 30, 2015

Gross loans receivable in nonperforming status as of September 30, 2016 and 2015 are $800,000 and $1,455,389, respectively.

	30-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due	Current	Total Financing Receivables
General Recourse	$ -	$ -	$1,415,377	$74,115,787	$75,531,164
Asset-backed	-	-	-	125,278,622	125,278,622
	$ -	$ -	$1,415,377	$199,394,409	$200,809,786
Less Allowance for Bad Debt					10,938,807
Total					$189,870,979

The activity in the allowance for bad debt by loan type in fiscal years 2016 and 2015 is as follows:

As of September 30, 2016

	Beginning Balance	Write-offs	Recoveries	Provision	Ending Balance
General Recourse	$ 10,938,807	$ (500,000)	$ -	$ (918,287)	$ 9,520,520
Asset-backed	-	–	–	-	-
	$ $10,938,807	$ (500,000)	$ -	$ (918,287)	$9,520,520

As of September 30, 2015

	Beginning Balance	Write-offs	Recoveries	Provision	Ending Balance
General Recourse	$ 9,256,986	$ (236,870)	$ -	$ 1,918,691	$ 10,938,807
Asset-backed	-	–	–	-	-
	$ $9,256,986	$ (236,870)	$ -	$ 1,918,691	$10,938,807

The allowance for bad debt attributable to loans individually evaluated for impairment and loans collectively evaluated for impairment as of September 30, 2016 and 2015 is as follows:

As of September 30, 2016

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Allowance for Individually Evaluated Impaired Loans	Allowance for Collectively Evaluated Impaired Loans	Total Allowance
General Recourse	$ 75,850,555	$ -	$ 9,520,520	$ -	$ 9,520,520
Asset-backed	327,674,989	-	-	–	-
	$ 403,525,544	$ -	$ 9,520,520	$ –	$ 9,520,520

As of September 30, 2015

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Allowance for Individually Evaluated Impaired Loans	Allowance for Collectively Evaluated Impaired Loans	Total Allowance
General Recourse	$ 75,531,164	$ -	$ 10,938,807	$ -	$ 10,938,807
Asset-backed	125,278,622	-	-	–	-
	$ 200,809,786	$ -	$ 10,938,807	$ –	$ 10,938,807

At September 30, 2016 and 2015 impaired loans with and without a related allowance are as follows:

As of September 30, 2016

Impaired Loans for which there is a related allowance:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
General Recourse	$ 4,042,923	$ 4,042,923	$ 2,674,706	$ 4,042,923	$ 6,125
Asset-backed	–	–	–	–	–
	$ 4,042,923	$ 4,042,923	$ 2,674,706	$ 4,042,923	$ 6,125

There were no Impaired Loans for which there is not a related allowance.

As of September 30, 2015

Impaired Loans for which there is a related allowance:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
General Recourse	$ 6,209,184	$ 6,209,184	$ 3,974,311	$ 6,209,184	$ 96,951
Asset-backed	–	–	–	–	–
	$ 6,209,184	$ 6,209,184	$ 3,974,311	$ 6,209,184	$ 96,951

There were no Impaired Loans for which there is not a related allowance.

During the years ended September 30, 2016 and 2015 the CDFI Fund recognized interest income related to impaired loans of $6,125 and $96,951, respectively. The CDFI Fund recognizes interest income on impaired loans as earned in accordance with loan agreements.

A loan is considered impaired when, based on current information and events, it is probable that the CDFI Fund will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans and loans with asset to liability ratio, excluding restricted assets, below 100%. Impaired loans include loans modified in troubled debt restructurings (“TDRs”) where concessions have been granted to borrowers experiencing financial difficulties only if the most current asset to liability ratio, excluding restricted assets, is below 100%. The TDR concessions may include a reduction in the interest rate on the loan, payment extensions, or other actions intended to maximize collection.

As of September 30, 2016 the CDFI Fund had a total recorded investment of 4 impaired loans from General Recourse TDRs of $2,406,256 of which $2,406,256 had a related allowance for bad debt of $1,686,306. As of September 30, 2015 the CDFI Fund had a total recorded investment of 4 impaired loans from General Recourse TDRs of $1,768,139 of which $1,768,139 had a related allowance for bad debt of $1,581,659. There were no CDFI Bond Guarantee Program TDRs as of September 30, 2016 or 2015.

For the years ended September 30, 2016 and 2015, grants in the amount of $3,153,000 and $7,930,000 respectively, were disbursed to debtors owing receivables whose terms have been modified in TDRs. As of September 30, 2016 and 2015, there were commitments in the amount of $5,994,000 and $5,337,402 respectively to disburse grants to debtors owing receivables whose terms have been modified in TDRs.

The CDFI Fund utilizes a rating system to classify loans according to credit worthiness and risk. Each loan is categorized as pass, likely, doubtful or loss.

A description of each category (credit quality indicator), in terms of the attributes of the borrower, the business environment in which the borrower operates or the loan itself, follows:

Pass – Timely interest and highly probable principal payments; strong debt service capacity and viability;

Likely – Timely interest and principal payments likely; average debt service capacity and viability;

Doubtful – Weak debt service capacity and/or going concern issues; evidence of financial hardship; repayment may be possible with serious hardship;

Loss – Poor debt service capacity and going concern issues; in default; full loss is probable.

The credit quality indicators for loans receivable as of September 30, 2016 and 2015 were as follows:

As of September 30, 2016

	Pass	Likely	Doubtful	Loss	Total
General	$ 36,633,937	$ 35,173,695	$ 2,926,667	$ 1,116,256	$ 75,850,555
Asset-backed	327,674,989	–	–	–	327,674,989
	$ 364,308,926	$ 35,173,695	$ 2,926,667	$ 1,116,256	$ 403,525,544

As of September 30, 2015

	Pass	Likely	Doubtful	Loss	Total
General Recourse	$ 37,242,270	$ 32,079,711	$ 4,793,806	$ 1,415,377	$ 75,531,164
Asset-backed	125,278,622	–	–	–	125,278,622
	$ 162,520,892	$ 32,079,711	$ 4,793,806	$ 1,415,377	$ 200,809,786

(6) Amortized Cost Method Investments

The carrying amount, net of applicable discounts, gross unrealized holding losses and fair value of held-to-maturity debt securities by major security type at September 30, 2016 and 2015 are as follows:

	Aggregate Fair Value	Gross Unrealized Loss	Amortized Cost (Net Carrying Amount)
Investments, Held-to-Maturity at September 30, 2016:			
Convertible debt securities	$ 607,824	$ -	$ 607,804
Secondary capital securities	$ 2,155,181		$ 2,155,181
Total	$ 2,763,005	$ -	$ 2,763,005

	Aggregate Fair Value	Gross Unrealized Loss	Amortized Cost (Net Carrying Amount)
Investments, Held-to-Maturity at September 30, 2015:			
Convertible debt securities	$ 563,721	$ -	$ 563,721
Secondary capital securities	$ 2,131,045		$ 2,131,045
Total	$ 2,694,766	$ -	$ 2,694,766

Maturities of debt securities classified as held-to-maturity were as follows at September 30, 2016:

	Fair Value
Held-to-Maturity:	
Due after one through five years	$ 800,000
Due after five through ten years	1,355,181
Due after ten years	607,824
Total	$ 2,763,005

The CDFI Fund evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Significant factors considered include regulatory findings and trends in various financial criteria. Based on this evaluation, the CDFI Fund recognized no other-than-temporary impairment losses of these investments in September 30, 2016 or September 30, 2015.

Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2016 and 2015, this category consists of one debenture of $1.975 million and $2 million notional amount, respectively (amortized cost of $607,824 and $563,721 as of September 30, 2016 and 2015, respectively) which matures January 2048 with the option to convert into 197,500 shares of non-voting class B common stock at a $10 per share conversion price.

Secondary capital securities consist of investments that cannot be redeemed prior to scheduled redemption dates; 9/14/20 and 4/9/22 respectively.

(7) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the CDFI Fund’s financial instruments at September 30, 2016 and 2015. The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	2016		2015	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets:				
Fund Balance with Treasury	$ 366,897,227	$ 367,000,000	$ 247,847,169	$ 247,847,000
Loans Receivable	394,005,024	396,000,000	189,870,979	116,966.00
Investments, amortized costs	2,763,005	3,000,000	2,694,766	2,695,000
Investments, cost method	14,326,252	29,000,000	13,881,383	27,536,000
Financial liabilities:				
Awards payable	1,610,025	2,000,,000	19,590,783	19,591,000
Debt	396,895,128	382,000,000	191,814,231	110,890,000

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Fund Balance with Treasury and awards payable: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Loans receivable, debt and investments, amortized cost: The fair value is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. The discount rates approximate rates currently offered by local lending institutions for loans of similar terms to companies with comparable risk. The fair value of nonperforming loans is determined as the present value of expected future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. The expected cash flows were estimated based on the awardee's financial condition and the long-term potential of the business in relation to the maturity date of the loan.

Investments, cost method: The CDFI Fund records these equity investments under the cost method of accounting. The CDFI Fund considers qualitative assessments of the viability of the investee, fundamental financial analysis and evaluation of the financial statements of the investee and prospects for its future.

(b) Fair Value Hierarchy

The level of the fair value hierarchy within which the fair value measurement are categorized in their entirety are as level 1 inputs. The CDFI Fund does not record investments or loans at fair value on a recurring basis. However, from time-to-time, the CDFI Fund records nonrecurring fair value adjustments to reflect partial write-downs that are based on current financial indicators of the awardees. The CDFI Fund uses qualitative assessments of the viability of the awardee, evaluation of the financial statements of the awardee and prospects for its future. Financial statement disclosures and audit opinions were reviewed for the most recent five years for indications of going concern or operational issues. Calculations of pro-rata equity, financial performance ratios, total cash and other trend analysis were performed to determine fair value.

(8) Cost Method Investments

Investments accounted for under the cost method consist of non-voting common stock held in for-profit CDFI Program awardees and preferred non-voting stock held in two awardees. The aggregate amount of these investments is $14,326,252 and $13,881,383 at September 30, 2016 and 2015, respectively. All securities were evaluated for impairment. The measurement of impairment is fair value and net equity was evaluated for sufficiency to cover preferred interest if liquidation occurred. The evaluation identified two investment that were determined to be other than temporarily impaired and were written down during fiscal year 2016 totaling, $54,048.

(9) Equity Method Investments

Investments accounted for under the equity method consist of a Class B limited partnership interest in Sustainable Jobs Fund, LP (12%), an interest in Pacific Community Ventures Investment Partners II (7%) and a non-voting redeemable transferable interest in BCLF Ventures II, LLC (18%). Equity method investments totaled $749,041 and $1,103,333 at September 30, 2016 and 2015, respectively.

(10) Due to the General Fund

The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Government, as a whole. It also includes accounts used in the management of the Budget of the U.S. Government.

Due to the General Fund represents a liability to reflect assets owed by the CDFI Fund to the General Fund. These liabilities are separately reported on the Balance Sheet, with a corresponding amount reported in Interest and other receivable. The General Fund liabilities include penalty and late fees due to delinquent loans totaling $40,000 and $40,000 at September 30, 2016 and 2015, respectively.

(11) Debt and Other Borrowings

Debt consists of amounts borrowed from the Treasury Department and its components and included the following activity for the years ended September 30, 2016 and 2015:

	2016	2015
Beginning Balance	$ 191,814,231	$ 91,198,888
New Borrowings	218,471,745	107,828,909
Repayments	(13,390,848)	(7,213,566)
Ending Balance	$ 396,895,128	$ 191,814,231

Payments to the Treasury Department are due on September 30 of each year of maturity. Principal payments that include direct loans and total principal payments for the bond guarantees on this debt as of September 30, 2016 are as follows:

Fiscal Year	Principal Payments
2017	15,342,100
2018	19,236,089
2019	23,345,112
2020	15,012,968
2021	13,069,346
Later years, through 2058	317,519,929
Total	$ 403,525,544

During fiscal year 2016, the CDFI Fund borrowed $218,471,745 for new loans. This included $210,681,893 for BGP loans, $405,108 for BGP downward subsidy reestimate, $5,298,457 for direct loans, $1,056,626 for direct loan downward subsidy reestimate, and $1,029,661 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 1.92% to 6.36%, depending on maturity dates or risk categories.

During fiscal year 2015, the CDFI Fund borrowed $107,828,909 for new loans, This included $88,698,478 for BGP loans, $2,126,816 for BGP downward subsidy reestimate, $14,143,328 for direct loans, $2,055,124 for direct loan downward subsidy reestimate, and $805,163 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 1.92% to 6.36%, depending on maturity dates or risk categories.

Interest paid in cash for the years ended September 30, 2016 and 2015 was $12,975,346 and $6,552,054 respectively.

The CDFI Fund has permanent indefinite borrowing authority to fund downward subsidy reestimates and annual interest payments to the Treasury Department. These costs do not reduce the CDFI Fund's net position.

The CDFI Fund has permanent indefinite borrowing authority of $290,130,433 to fund instruments issued under the Bond Guarantee Program as of September 30, 2016.

(12) Commitments

(a) Operating Leases

The CDFI Fund leases office space and equipment in Washington, D.C. under the terms of an implicit operating lease between the General Services Administration and Eleven Eighteen Limited Partnership which expires in March, 2019. The total operating lease expense was $1,031,234 and $1,114,785 for the years ended September 30, 2016 and 2015, respectively.

Future estimated minimum payments due under these operating leases as of September 30, 2016 were as follows:

Fiscal Year		*Estimated minimum lease payments
2017		1,030,766
2018		1,046,307
2019		1,062,314
	$	3,139,387

* Estimates are based off of the 2010 occupancy agreement between Treasury and the General Services Administration.

(b) Award, Purchase and Bond Guarantee Program Commitments

As of September 30, 2016 and 2015, unfilled award commitments amounted to $216,474,451 and $201,937,822 respectively. Award commitments relate to CDFI Program and NACA Program awards which were approved by CDFI 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 Capital Magnet Fund of $91,472,163 and $0 as of September 30, 2016 and 2015, respectively, were approved by CDFI 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 BEA Program of $0 and $18,131,544 as of September 30, 2016 and 2015, respectively, represent expenditures incurred by awardees for which the CDFI Fund will reimburse the awardee through a grant award and are excluded from these amounts since they are reflected as liabilities on the CDFI Fund's balance sheet. Award commitments pertaining to CDFI Program of $1,610,025 and $1,459,239 as of September 30, 2016 and 2015, respectively, are also reflected as liabilities as these awardees have met the conditions required for payment.

Purchase commitments of $6,405,679 and $13,153,951 as of September 30, 2016 and 2015, respectively, relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

As of September 30, 2016 and 2015, Bond Guarantee Program commitments for related direct loan disbursements amounted to $784,148,333 and $725,301,522 respectively. Actual disbursement is subject to borrowers satisfying certain conditions.

(13) Unexpended Appropriations

Unexpended appropriations for the years ended September 30, 2016 and 2015 were as follows:

		2016		2015
Beginning unexpended appropriations:	$	231,850,196	$	225,408,376
Appropriations received		235,481,809		230,500,000
Appropriations for Subsidy Reestimate		3,026,440		1,975,730
Appropriations cancelled		-2,030,233		-1,511,982
Appropriations expended		-189,477,389		-220,339,388
Downward Subsidy Reestimate Adjustment		(5,990,438)		(4,181,940)
Change in unexpended appropriations		41,010,189		6,441,820
Ending unexpended appropriations	$	272,860,385	$	231,850,196

(14) Imputed Financing

Imputed financing represents specific expenses relating to the CDFI Fund paid for by another Federal organization. The components of imputed financing include pension costs for CSRS and FERS retirement plans, Health Benefits Program costs, Group Life Insurance Program costs and audit fees. Imputed financing expenses for the years ended September 30, 2016 and 2015 were $828,666 and $705,258 respectively.

(15) Government Sponsored Entities' Fees – Capital Magnet Fund

Under the Housing and Economic Recovery Act of 2008 (HERA), 12 USC 4567, the Government Sponsored Entities (GSEs), comprised of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) are required to set aside annual allocations equal to 4.2 basis points for each dollar of their unpaid principal balances of total new business purchases, of which 25 percent must be deposited into a reserve fund for the HOPE for Homeowners Program, and, of the remaining amount available, the Housing Trust Fund (a HUD Program) will receive 65 percent of the funds, and the CMF will receive 35 percent of the funds. The Federal Housing Finance Agency (FHFA), acting as the GSEs' conservator, suspended the implementation of these allocations before they were set to begin. In December 2014, the FHFA lifted its suspension of the GSEs' allocation and directed the GSEs to begin setting aside funds. Based on their calendar year 2015 activities, the GSEs' transferred $100,292,020 to the CDFI Fund in February 2016 for the CMF Program. An accrual of $83,500,000 was made in anticipation of collections in FY 2017 for fees estimated through September 30, 2016.

The Cumulative Results of Operations – Capital Magnet Fund is composed entirely of restricted funds. Under federal statute these funds have been specifically identified and are only designated for activities, benefits, or purposes of the Capital Magnet Fund.

(16) Administrative Expenses

Administrative expenses consist of the following for the years ended September 30, 2016 and 2015:

		2016		2015
Personnel compensation and benefits	$	11,641,871	$	10,780,896
Travel		54,821		66,063
Rent, communication, utilities and miscellaneous charges		1,031,234		1,114,785
Contractual services with other agencies		5,336,582		4,556,009
Contractual services with non-federal parties		9,278,633		8,473,315
Information technology systems maintenance		563		28,650
Amortization		341,341		211,869
Supplies and printing		37,127		20,879
Other		4		-
Total	$	27,722,176	$	25,252,466

(17) Related Party Transactions

The CDFI Fund has Interagency agreements with the Treasury Department. As of September 30, 2016 and 2015, these related party expenses amounted to $7,365,978 and $6,538,766, respectively.

Expenses were recorded as follows for fiscal years 2016 and 2015: Interagency Agreements with Departmental Offices (DO) for financial management services, conference and events, postage, human resources services, and Working Capital Fund shared IT services for the amount of $2,215,723 and $2,034,925 for fiscal years 2016 and 2015, respectively. An Interagency Agreement with the BFS for accounting services, e-Travel and Prism for the amount of $1,669,538 and $1,882,771 for fiscal years 2016 and 2015, respectively. An Interagency Agreement with Alcohol and Tobacco Tax and Trade Bureau for IT services for the amount of $2,724,697 and $2,642,638 for fiscal years 2016 and 2015, respectively. An Interagency Agreement with Office of Financial Stability (OFS) for personnel for the amount of $(11,478) and $(21,568) for fiscal years 2016 and 2015, respectively. An Interagency Agreement with Department of Energy for IT services related to the Portfolio Analysis and Performance Reporting System for the amount of $767,498 and $0 for fiscal years 2016 and 2015, respectively.

(18) Subsequent Events

The CDFI Fund has evaluated subsequent events from the date of statements of financial position through November 14, 2016, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

Appendix A: Glossary of Acronyms

A
AFR – Agency Financial Report
AMIS – Awards Management Information System
ARC – Administrative Resource Center
ARRA – American Reinvestment and Recovery Act of 2009
ATS – Allocation Tracking System

B
BEA – Bank Enterprise Award
BGP – Bond Guarantee Program

C
CCME – Certification, Compliance Monitoring and Evaluation
CDCI – Community Development Capital Initiative
CDE – Community Development Entity
CDFI – Community Development Financial Institution
CDFI Fund – Community Development Financial Institutions Fund
CIIS – Community Investment Impact System
CMF – Capital Magnet Fund
CoE – Centers of Excellence
COTS – Commercial Off-The-Shelf

E
ETA – Electronic Transfer Accounts

F
FA – Financial Assistance
FDIC – Federal Deposit Insurance Corporation
FEC – Financial Education and Counseling Pilot Program
FFAMIA – Federal Financial Assistance Management Improvement Act
FFATA – Federal Funding Accountability and Transparency Act
FFMIA – Federal Financial Management Improvement Act of 1996
FMFIA – Federal Managers' Financial Integrity Act

G
GMLoB – Grants Management Line of Business
GSE – Government Sponsored Entity (ies)

H
HFFI-FA – Healthy Food Financing Initiative – Financial Assistance

I
IDA – Individual Development Accounts
ILR – Institution Level Report
IPERA – Improper Payments Elimination and Recovery Act
IPIA – Improper Payments Information Act of 2002

N
NACA Program – Native American CDFI Assistance Program
NMTC – New Markets Tax Credit
NOFA – Notice of Funding Availability

O
OCFO – Office of the Chief Financial Officer
OFM – Office of Financial Management
OIG – Office of Inspector General
OMB – U.S. Office of Management and Budget

P
PAR – Performance and Accountability Report

Q
QALICB – Qualified Active Low-Income Community Business
QEI – Qualified Equity Investment
QLICI – Qualified Low-Income Community Investment

S
SECA – Small and Emerging CDFI Assistance

T
TA – Technical Assistance
TLR – Transaction Level Report

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Submit a complaint using our online form:
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