



Audit Report



OIG-09-007

Audit of the Community Development Financial Institutions
Fund's Fiscal Year 2008 Statement of Financial Position

November 17, 2008

Office of
Inspector General

Department of the Treasury

The Community Development Financial Institutions Fund (CDFI) Performance and Accountability Report (PAR) does not conform to the requirements of Section 508 of the Rehabilitation Act;

To obtain a Section 508 compliant copy of CDFI's 2008 PAR, contact CDFI

Also see:

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 17, 2008

**MEMORANDUM FOR DONNA J. GAMBRELL, DIRECTOR
COMMUNITY DEVELOPMENT FINANCIAL
INSTITUTIONS FUND**

FROM: Michael Fitzgerald /s/
Director, Financial Audits

SUBJECT: Audit of the Community Development Financial Institutions
Fund's Fiscal Year 2008 Statement of Financial Position

I am pleased to transmit the attached audited Community Development Financial Institutions Fund (CDFI) statement of financial position for fiscal year 2008. Under a contract monitored by the Office of Inspector General, KPMG LLP, an independent certified public accounting firm, performed an audit of CDFI's statement of financial position as of September 30, 2008. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

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

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting;
and
- Independent Auditors' Report on Compliance and Other Matters

In its audit, KPMG LLP found that the statement of financial position was fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. However, KPMG LLP identified two significant deficiencies related to management communication and controls over awards monitoring, which were not considered material weaknesses. Further, KPMG LLP found no instances of reportable noncompliance with laws and regulations tested.

KPMG LLP also issued a management letter dated November 12, 2008, discussing a matter involving internal control over financial reporting and its operation 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 LLP's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on CDFI's statement of financial position or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 12, 2008 and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits, at (202) 927-5591.

Attachment

Community Development Financial Institutions Fund

United States Department of the Treasury

Performance and Accountability Report

FY 2008

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CDFI Fund will provide alternative formats to the PAR in compliance with Section 508 as requested by disabled persons in accordance with Section 508 Subpart D “Information, Documentation, and Support.”

Message From The Director

I am pleased to present the U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund's Performance and Accountability Report for Fiscal Year 2008. In these current economic times, the vision of the CDFI Fund is more important than ever — an America in which all people have access to affordable credit, capital, and financial services.

I am proud to report that over the last year, the CDFI Fund has been striving toward this vision and achieving our mission by promoting access to capital and local economic growth through our four major programs: the CDFI Program, the New Markets Tax Credit Program, the Bank Enterprise Award Program, and our Native Initiatives. In FY 2008, the CDFI Fund awarded 240 organizations a total of more than \$80 million in awards and \$3.5 billion in tax credit allocations to serve distressed communities.

Across the nation, CDFIs are using the CDFI Fund's awards to engage in a wide range of economic development activities. These investments include small business lending, affordable home mortgage products, financial education, home ownership counseling, and other innovative solutions to meet community needs.

The CDFI Fund selected Port Angeles, Washington to hold the FY 2008 award announcement for the CDFI Program. We choose this location to focus on the work that many CDFIs do to support the revitalization and growth of the nation's rural communities. Many of these CDFIs focus on a "triple bottom line" where the success of their investments is measured not just by financial return but also the impact and environmental benefits to the communities they serve.

Analyzing the important impact of all the CDFI Fund's programs is an important goal. This year, the CDFI Fund conducted its first research conference, exclusively devoted to the activities of CDFIs. We brought together over 160 individuals from across the nation to hear speakers present on topics germane to the CDFI industry, such as financing for affordable housing, including mortgage financing that offers alternatives to subprime lending, in addition to business and commercial lending for retail services.

I want to highlight the CDFI Fund's commitment to the Native Initiatives. This year I had the opportunity to testify before the Senate Committee on Indian Affairs regarding the remarkable impact of Native CDFIs combating predatory lending in Indian Country. It is a testament to the success of the Native American CDFI Assistance (NACA) Program that the CDFI Fund was able to make a total of over \$8 million of awards this year to 29 organizations serving Native American or Alaskan Native communities.

This is a remarkable accomplishment given that in FY 2001 there were only 14 certified Native CDFIs and today the CDFI Fund has certified almost 50 Native CDFIs with another 50 that are preparing for certification. These Native organizations bring leadership and stability to their communities by building assets and expanding financial opportunity for the people they serve.

In closing, I again want to recognize and thank our dedicated CDFI Fund staff, who passionately works toward our important mission every day. Their work makes the CDFI Fund a better place — and by helping to improve the lives of individuals living in distressed communities across this county, we are all making America a better place.

Donna J. Gambrell
Director

Community Development Financial Institutions Fund

Overview

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

Since its creation in 1994, the CDFI Fund has awarded \$947 million to CDFIs, community development organizations and financial institutions through the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Award (BEA) Program, and Native Initiatives. In addition, the CDFI Fund has allocated \$19.5 billion in tax credit authority to Community Development Entities (CDEs) through the NMTC Program.

Authorizing Legislation

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

CDFI Fund's Vision and Mission

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

- 1) the **CDFI Program**, by making funding available to financial institutions that are certified or eligible to be certified as

CDFIs, which in turn provide loans, investments, financial services and technical assistance to underserved populations and low-income communities;

- 2) the **NMTC Program**, which provides tax allocation authority to CDEs, enabling investors in these CDEs to claim tax credits against their Federal income taxes. CDEs, in return, use the capital raised to make investments in low-income communities;
- 3) the **BEA Program**, which provides cash awards to banks for increasing their investment in low-income communities and/or in CDFIs; and
- 4) **Native Initiatives**, which provides Financial Assistance, Technical Assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs.

What is a CDFI?

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

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

as community development banks, credit unions, and non-regulated institutions such as loan funds and venture capital funds, among others.

Certification of Community Development Financial Institutions and Community Development Entities

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

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

The certification is a requirement for accessing a Financial Assistance award from the CDFI Fund through the CDFI Program and the Native American CDFI Assistance (NACA) Program, and certain benefits through the BEA Program. As of September 30, 2008, there were 808 Certified CDFIs.

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

Many CDEs create multiple subsidiary CDEs to own specific assets or classes of assets, and thus the number of CDEs has grown to 3,434 as of September 30, 2008. Benefits of being certified as a CDE include being able to: (1) apply to the CDFI Fund to receive a NMTC

allocation to offer to its investors in exchange for equity investments in the CDE and/or its subsidiaries; or (2) receive loans or investments from other CDEs that have received a NMTC Allocation. CDEs must be certified to receive allocations of tax credits.

Growth in Number of Certified CDFIs and CDEs

<u>End of FY</u>	<u>CDFIs</u>	<u>CDEs</u>
1997	190	
1998	262	-
1999	334	-
2000	415	-
2001	468	31
2002	625	541
2003	694	1,184
2004	728	1,585
2005	752	1,954
2006	762	2,294
2007	778	2,680
2008	808	3,434

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

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

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

- **Financial Assistance (FA)** awards are in the form of grants, loans, and equity investments to CDFIs that have comprehensive business plans for creating community development impact and that demonstrate the ability to leverage private sector sources of capital.
- **Technical Assistance (TA)** awards are for CDFIs and entities proposing to become CDFIs in order to build their capacity to advance community development and meet capital access needs in their

target markets. Technical Assistance awards can also be accessed by larger and more established CDFIs to support their continued development.

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

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

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

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

Calendar Year 2002 was the first year in which applications for NMTC were submitted to the CDFI Fund and, as of the end of FY 2008, six allocation rounds have been completed providing allocations of tax credit authority that will support, in the aggregate, equity investments of \$19.5 billion (including \$1 billion for GO Zone allocations).

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

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and

investing. Through the BEA Program, the CDFI Fund provides monetary awards to regulated banks and thrifts for increasing their investments and financial activities in economically distressed communities (those with high poverty and unemployment) and/or investments in CDFIs. The size of the award is a percentage of the increase in activities from one annual reporting period to the next.

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

The CDFI Fund's Native Initiatives are intended to assist entities in overcoming barriers that prevent access to credit, capital and financial services in Native American, Alaskan Native, and Native Hawaiian communities. Native Initiatives' central program is the Native American CDFI Assistance (NACA) Program, which aims to increase the number and capacity of existing or new CDFIs serving Native Communities. In addition, Native Initiatives provides training to help strengthen and develop Native CDFIs.

Performance Measures: This Performance and Accountability Report includes a discussion of those performance measures the CDFI Fund considers the most significant.

Allocation of CDFI Funding

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

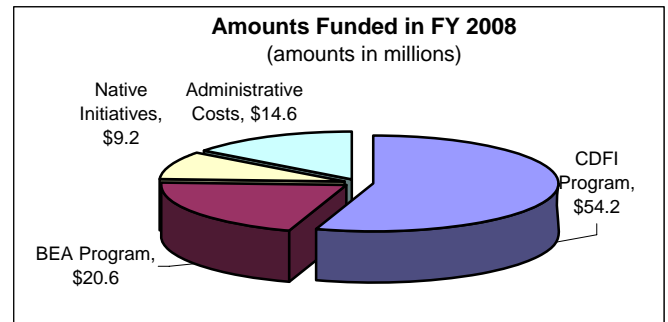
Sources of CDFI Funding

Congress appropriates CDFI Funds annually to the CDFI Fund; each appropriation can be used over two fiscal years. Appropriations include fiscal year budget authority and, if any unobligated CDFI Funds from the

prior year carryover. The annual appropriation amount includes borrowing authority to make loans.

Sources of CDFI Funding (amounts in millions)		
	<u>FY 2008</u>	<u>FY 2007</u>
Appropriations	\$94.0	\$ 54.5
Prior Year Amounts Deobligated, Used to Fund Current Year Obligations	1.0	.4
Carryover from Prior Year	1.9	1.5
Borrowing Authority Used	<u>2.5</u>	<u>.7</u>
Total Sources of CDFI Funds	<u>\$99.4</u>	<u>\$ 57.1</u>

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



Uses of CDFI Funding

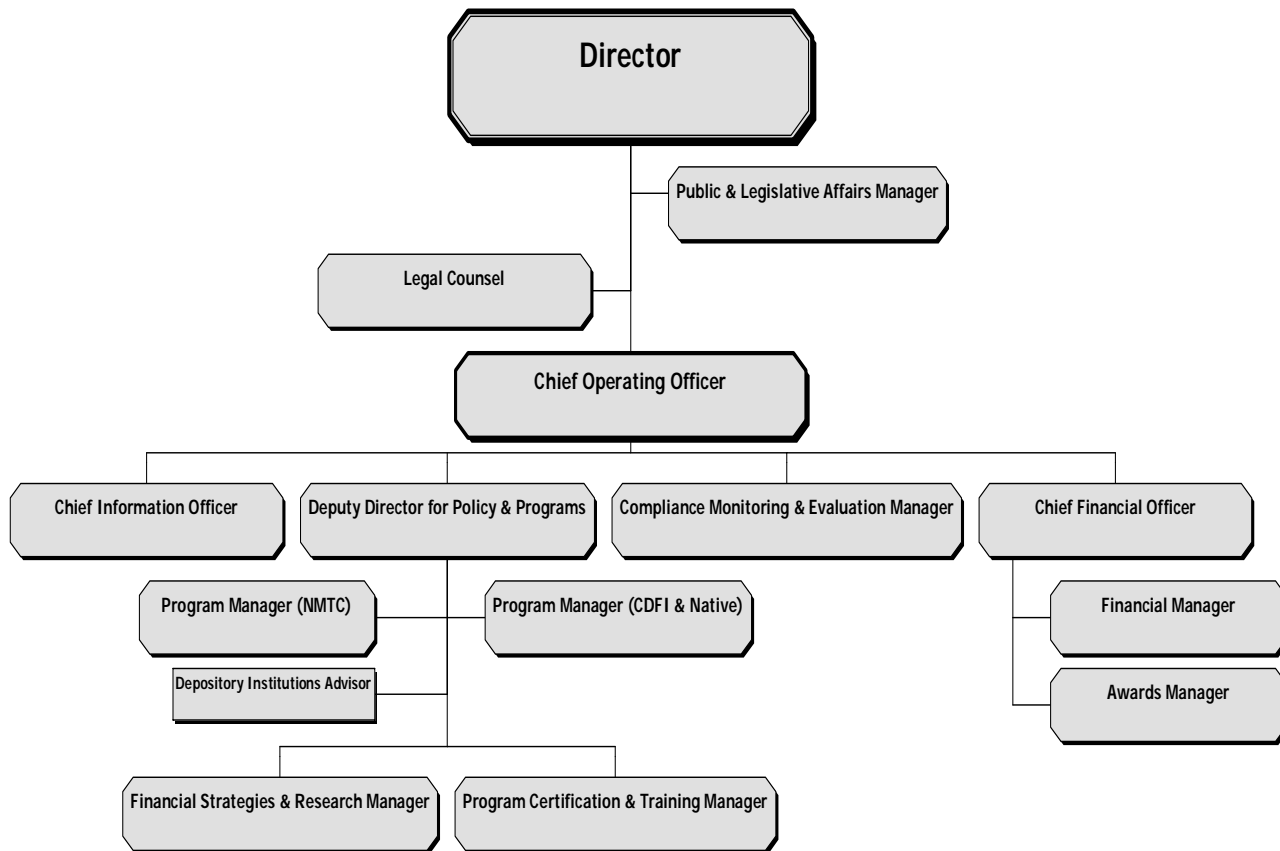
During FY 2008, the CDFI Fund used CDFI Funding of 98.6 million as follows:

Uses of CDFI Funding (amounts in millions)		
	<u>FY 2008</u>	<u>FY 2007</u>
Amounts Funded		
CDFI Program	\$54.2	\$27.4
BEA Program	20.6	11.2
Native Initiatives	9.2	3.6
Administrative Costs	<u>14.6</u>	<u>13.5</u>
Total Amounts Funded	\$98.6	\$55.7
Amounts Not Obligated	<u>.8</u>	<u>1.4</u>
Total CDFI Funding Used	<u>\$99.4</u>	<u>\$57.1</u>

ORGANIZATION OF THE CDFI FUND

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND ORGANIZATION CHART SEPTEMBER 2008



Program Discussion and Analysis

Community Development Financial Institutions Program

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

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

Certified CDFIs

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

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

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

The certification of organizations as CDFIs has been a

long-standing goal of the CDFI Fund. By the end of FY 2008, the CDFI Fund had certified 808 CDFIs serving both rural and urban areas in all states and the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

Breakdown of Types of Certified CDFIs

Twenty-eight percent of certified CDFIs are headquartered in the five most populous states (New York, Texas, North Carolina, Florida, and California)

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

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

CDFI Customers

CDFI customers consist of the following:

- Small business owners who provide employment opportunities and needed services to disadvantaged communities;

- Affordable housing developers 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.

Financial Assistance

The CDFI Program consists of two components, Financial Assistance and Technical Assistance (FA and TA). FA is by far the most subscribed, FA and TA consist of two categories: Category 1 – Small and Emerging CDFI Assistance (SECA); and Category 2 – Core. Through FA and TA, the CDFI Fund invests in CDFIs that demonstrate the financial and managerial capacity to impact the communities they serve. Applicants must be able to: 1) provide affordable and appropriate financial products and services; 2) be a viable financial institution; 3) be able to use CDFI Fund awards effectively; and 4) have the ability to leverage its award with non-federal funding.

Through the CDFI Program, the CDFI Fund invests in CDFIs – that provide financing and related services to communities and populations lacking access to credit, capital and financial services. FA and TA awards are made in the form of equity investments, loans, deposits, or grants, depending on applicant needs, and must be matched by the applicant with funds of the same type from non-federal sources. FA and TA awards enable CDFIs to leverage private capital for affordable financial products and services in economically distressed markets. CDFIs respond to this demand by providing loans, investments, training, technical assistance, and basic financial services such as checking or savings accounts. Based on data awardees are required to report to the CDFI Fund, it is estimated that CDFIs leverage their FA awards with other dollars

by an average of 22:1.

Under the FA and TA program, applicants can apply for FA only or combined FA and TA using the same application. Those applicants applying for FA must indicate which of two categories types they are applying under: Category 1 or Category II.

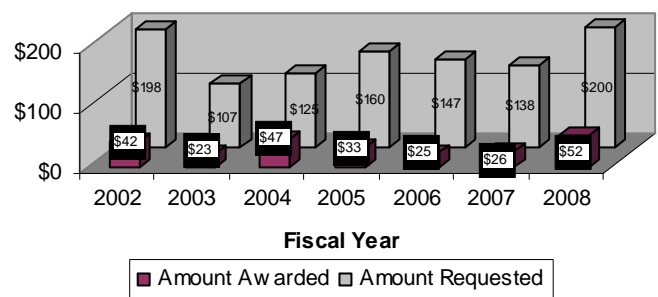
FY 2008 Awards

In FY 2008, the CDFI Fund received 170 applications requesting approximately \$200 million, including 52 SECA applicants requesting \$24.7 million and 118 Core applicants, seeking \$175.6 million.

The CDFI Fund awarded \$52.2 million to 66 organizations in FY2008, consisting of 22 SECA awards for \$9 million and 44 Core for \$43.2 million. In FY2007, the CDFI Fund awarded 49 organizations \$25.7 million in FA/TA in both Category 1 (SECA) and Category II (Core) combined.

The following bar graph shows the total amount of FA funds requested and awarded since FY 2002. The CDFI Program has consistently received more applications than it can fund. In FY2008, it received almost twice as much funding that it had in FY2007, but it also received more applications requesting more dollars. In the past few years, the CDFI has capped awards at \$1 million in an attempt to meet the heavy demand. By capping award amounts, the CDFI Fund is able to make more awards.

**CDFI Financial Assistance
Relationship Between Amounts
Requested and Awarded
(amounts in millions)**



Technical Assistance

The Technical Assistance (TA) component provides grants to build the capacity of start-up and existing CDFIs. Grant funds can be used for items like staff salaries, benefits, staff training, professional services,

supplies and equipment. Applicants often request funds to analyze their target market, develop lending policies and procedures, or to hire a loan officer.

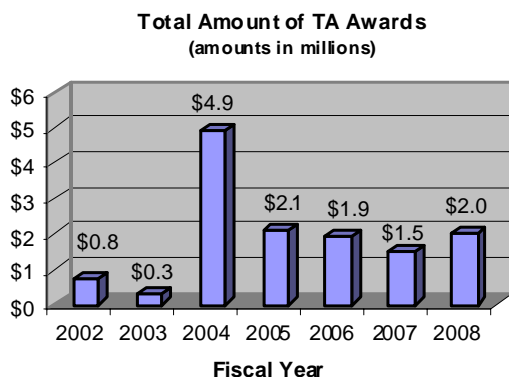
More established CDFIs also use TA grants to build their capacity to provide new products, serve current markets in new ways, or enhance the efficiency of their operations; examples include upgrading computer hardware and software.

Changes to Technical Assistance in FY 2008

There were no substantive changes to the Technical Assistance component in FY2008.

FY 2008 Awards

In FY 2008, the CDFI Fund received 55 applications requesting \$5.2 million in TA grants. Twenty - three organizations received awards totaling about \$2 million. This is slightly more than FY2007 in which 19 organizations received \$1.5 million. The following graph shows the total amount of TA awards since 2002.



CDFI Program Performance

CDFI Program awardees report their annual performance to the CDFI Fund through the CDFI Fund’s web-based reporting system, the Community Investment Impact System (CIIS). Each awardee has 180 days from

its fiscal year end to report through CIIS. This time allows the awardee to complete its annual audit and enables the CDFI Fund to verify reported information against the audit.

The performance information provided herein pertains to each awardee’s 2007 fiscal year. It should also be noted that due to the length of time from notice of award through award disbursement, award deployment by an awardee, and receipt by the CDFI Fund of awardee impact information, the effect of the CDFI Fund’s awards made during any given year is not known until quite some time later.

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

Performance of CDFI Program Awardees During FY 2007 *	
1. # of Full Time Jobs Created or Maintained (32)	29,539
2. # of Businesses Financed (70)	9,109
3. # of Commercial Real Estate Properties Financed (36) **	1,087
4. # of Affordable Housing Units Financed (25)	4,040
5. # of Homebuyers Who Obtain Financing (44) **	2,436
6. # of Accounts Opened to the Unbanked (5)	871
7. Dollars, in millions, Leveraged with Private Investments	\$621
8. # of Individuals Provided with Financial Literacy and Other Training (134)	132,765
9. Individual Development Accounts (IDAs) Provided by CDFIs (54):	1,553
10. Dollar amount, in millions, of IDAs (54):	\$1.93

* Numbers in parentheses are the number of CDFI awardees reporting on this particular measure.

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

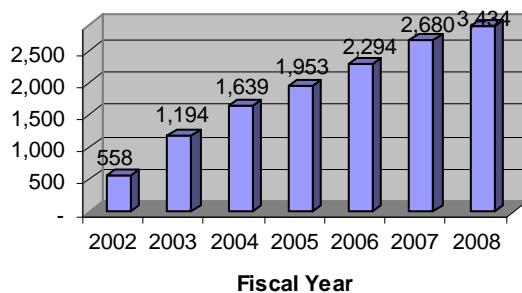
New Markets Tax Credit Program

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

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

To qualify as a CDE, an entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and 3) has been certified as a CDE by the CDFI Fund. As of September 30, 2008, 3,434 organizations have been certified as CDEs by the CDFI Fund, compared to 2,680 as of one year earlier.

Number of Certified Community Development Entities At Year End



Results of First Six NMTC Allocation Rounds

Throughout the life of the NMTC Program, the CDFI Fund is authorized to allocate to CDEs the authority to issue to their investors up to \$19.5 billion in equity against which NMTCs can be claimed, including \$1 billion of special allocation authority made available

under the Gulf Opportunity (GO) Zone Act of 2005 to be used for the recovery and redevelopment of the Hurricane Katrina GO Zone.

Allocations are awarded annually through a competitive process. To date, the CDFI Fund has completed six allocation rounds and has made 364 awards totaling \$19.5 billion in allocation authority, including \$1 billion in special GO Zone allocation authority under the 2006 and 2007 allocation round.

Amount of Equity to Be Raised from Tax Credit Completed Funding Rounds (Dollars in Billions)				
Round	Applications		Allocations	
	Number	Amount	Number	Amount
1	345	\$25.8	66	\$2.5
2	271	\$30.4	63	\$3.5
3	208	\$22.9	41	\$2.0
4	254	\$28.3	63	\$4.1
5	258	\$27.9	61	\$3.9
6	239	\$21.3	70	\$3.5
	<u>1,575</u>	<u>\$156.6</u>	<u>364</u>	<u>\$19.5</u>

Demand for the tax credits has been high, as 1,575 applicants have requested credits supporting over \$156 billion in equity investments – over eight times the amount of allocation authority available for distribution by the CDFI Fund. Through the first six allocation rounds, only 23% of applicants have been selected to receive an award. The average tax credit allocation award through the first six rounds was approximately \$53.6 million.

2008 NMTC Allocation Round Summary

In October of 2008, the CDFI Fund announced that 70 applicants had been awarded \$3.5 billion in NMTC allocation authority. The 70 allocatees are headquartered in 29 different states and the District of Columbia, but anticipate making awards in 46 different states, as well as D.C and Puerto Rico.

In the 2008 allocation round, the CDFI Fund implemented a statutory requirement to ensure that non-metropolitan (i.e., rural) counties receive a proportional allocation of Qualified Equity

Investments (QEIs). The CDFI Fund modified its allocation review procedures to ensure that: 1) the number of “Rural CDEs” (i.e., CDEs that focus at least 50% of their activities in non-metropolitan areas) were proportionately represented in the awardee pool; and 2) at least 20% of the total NMTC dollars would be invested in non-metropolitan areas. As a result, 9 of the 70 awardees are rural CDEs; and the 70 awardees will collectively invest a minimum of \$722.7 million dollars in non-metropolitan communities.

These 70 allocatees have committed to achieving results above and beyond minimal program requirements:

- Sixty-three of the 70 of the allocatees indicated that 100% of their investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50% below market and/or is characterized by at least five concessionary features, with the remaining 7 allocatees committing to providing debt that is at least 25% below market and/or characterized by at least three concessionary features. Such features include, among other things; subordinated debt, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.
- All 70 of the allocatees indicated that at least 85% of their activities will be provided in areas of higher economic distress (and/or areas targeted for development by other government programs) than are minimally required under NMTC Program rules, including 60 that indicated that 100% of their activities would be provided in such areas.
- All 70 of the allocatees indicated that they would invest more than the minimally required 85% of QEI dollars into Qualified Low-Income Community Investments (QLICI), and 56 of the 70 allocatees indicated that at least 97% of their QEI dollars would be invested into qualified low-income community investments. In real dollars, this means at least \$449 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.

NMTC Activities to Date

Allocation agreements have been executed with each of the 294 allocatees from the first five rounds. As of September 30, 2008, allocatees had reported raising QEIs totaling over \$11.75 billion.

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

All results in this section represent the allocatees’ data reported through their FY 2007. As shown in the table below, allocatees reported making \$3.34 billion of loans and investments in QALICBs (Qualified Active Low Income Community Businesses) in FY 2007, and a total of \$8.96 billion of loans and investments in QALICBs since the program’s inception. In FY 2007, 65% of the dollars invested were invested in “real estate QALICBs (i.e., businesses that develop or lease real property for use by others). It is projected that these loans and investments will result in the development or rehabilitation of 21.2 million square feet of commercial real estate, and the creation of more than 80,000 construction jobs.

The remaining 35% of the dollars were invested in “non-real estate QALICBs” (i.e., operating businesses) in low-income communities. These businesses created or maintain nearly 25,000 Full Time Equivalent (FTE) jobs in FY 2007 alone. Finally, the allocatees reported that 84% of the loans and investments they provided in FY 2007 had better rates and terms than could be offered in the prevailing market. In FY 2007, allocatees also reported making over \$185 million in direct investments into other CDEs, purchasing \$56.5 million in loans from other CDEs, and providing financial counseling and other services to 3,798 businesses in low-income communities.

Performance of NMTC Allocatees			
Type of QLICI		FY 2007 Performance	FY 2003 - FY 2007 Cumulative Performance*
QALICB: Real Estate			
1	Loans and investments supporting real estate development and rehabilitation in low-income communities.	\$2.189 billion	\$5.987 billion
		499 loans/investments	1,273 loans/investments
2	Square footage of commercial real estate projected to be developed and rehabilitated.	21.2 million square feet	68.1 million square feet
3	Number of full-time equivalent (FTE) construction jobs projected to be created or maintained.	80,959 FTEs	210,033 FTEs
QALICB: Non-Real Estate			
1	Loans and investments supporting businesses operating in low-income communities.	\$1.153 billion	\$2.970 billion
		456 loans/investments	1,221 loans/investments
2	Number of full-time equivalent (FTE) jobs projected to be created or maintained.	24,941 FTEs	45,690 FTEs
CDE			
1	Loans and investment in other CDEs.	\$187.3 million	\$276.5 million
		63 loans/investments	90 loans/investments
Loan Purchases			
1	Purchase of loans from CDEs.	\$56.5 million	\$154.3 million
FCOS			
1	Investment in Financial Counseling and Other Services (FCOS).	\$5.3 million	\$5.7 million
2	Number of businesses receiving FCOS.	3,798 businesses served	5,081 businesses served

* Cumulative performance is based on data available as of September 5, 2008. Each year, allocatees are permitted to update data reported in previous fiscal years to correct errors or provide newly available information. As a result, the cumulative figures may not exactly add up to the FY03 thru FY07 annual performance figures reported by the CDFI Fund in this and previous Performance and Accountability Reports.

Bank Enterprise Awards Program

The Bank Enterprise Award (BEA) Program recognizes the key role played by traditional financial institutions in community development lending and investing. It provides incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in economically distressed communities. Providing monetary awards for community reinvestment leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation. By statute, the BEA Program is highly targeted to areas with larger populations. In general, approximately 4,000 Census Tracts qualify as "distressed communities" under the program.

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

Promoting CDFI Investments through the BEA Program

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

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

The prospect of a BEA Program award encourages banks to achieve this first priority by providing low

cost capital and operating support to CDFIs, which has helped to create and sustain a network of CDFIs. CDFIs serve as conduits for banks to partner with to better serve highly distressed neighborhoods.

Eligibility

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

1. **CDFI-Related Activities:** Equity investments (grants, stock purchases, purchases of partnership interests or limited liability company membership interests); equity-like loans; and CDFI support (loans, deposits or technical assistance) to certified CDFIs (referred to as CDFI Partners).
2. **Distressed Community Financing Activities:** Loans or investments for affordable home mortgages, affordable housing development, education, home improvement, small businesses, and commercial real estate development in economically distressed communities.
3. **Service Activities:** Deposits, financial services (such as check-cashing, money orders, or certified checks), electronic transfer accounts (ETAs), individual development accounts (IDAs), "First Accounts," or community services provided to low- to moderate-income individuals or the institutions serving them.

FY 2008 BEA Program Awards

For FY 2008, the CDFI Fund received 60 eligible applications requesting just over \$49 million, compared to 71 applications requesting approximately \$29 million in FY 2007. The CDFI Fund selected 52 FDIC-insured institutions to receive approximately \$20 million in awards. The FY 2008 applicants are headquartered in 19 states and the District of Columbia, compared to the 18 states represented in the prior year.

FY 2008 applicants provided \$275.5 million in qualified loans or investments in distressed communities, \$66.4 million in qualified loans, deposits

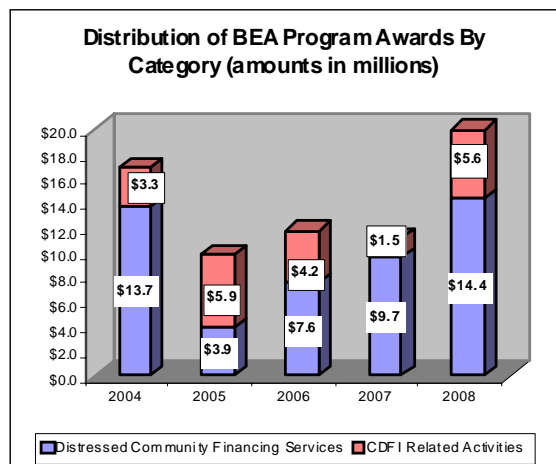
and technical assistance to CDFIs, and \$7.5 million in qualified equity investments and grants to CDFIs.

FY 2008 Community Impact

FY 2008 BEA awardees increased their qualified community development activities by \$232 million over the prior year.

- \$178.1 million increase in loans and investments in distressed communities;
- \$46.5 million increase in loans, deposits, and TA to CDFIs; and
- \$7.5 million increase in equity investments or grants.

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



Native Initiatives

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

The Native Initiatives are based on six objectives:

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

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

NACA Program FY 2008

The NACA Program helps proposed and existing Native CDFIs build their capacity to address the community development and capital needs of Native communities. The Program provides Financial Assistance (FA) and Technical Assistance (TA) grants to Native CDFIs. In FY 2008, the CDFI Fund received 45 NACA applications requesting more than \$17 million for both the FA and TA programs. In FY 2007, the CDFI Fund received 29 NACA applications requesting almost \$11 million – a 64% increase in the number of applications and the amount requested.

Financial Assistance Grants

Under the NACA Program, eligible Native CDFIs can apply for FA awards (such as loans or grants depending on the source of matching CDFI Funds) to support their financing activities.

About \$6.2 million was awarded to 12 organizations requesting FA. In order to meet the demand for funding, the Fund capped the FA awards in FY 2008 at \$500,000. As a result, the Fund was able to make more FA awards. The Fund assumes demand will remain high as an increasing number of Native CDFIs put into

practice the CDFI Fund's training, building their lending programs.

Technical Assistance Grants

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

In FY 2008, the CDFI Fund awarded about \$2 million to 17 awardees, which is similar to FY 2007. In FY 2007, the CDFI Fund awarded \$2.3 million to 19 organizations.

Training Initiatives

Under the Native Initiatives program, the CDFI Fund engages a contractor to provide training and technical assistance to existing and emerging Native CDFIs. Expanding Native Opportunities has three types of training – 1) Native Communities Financing Initiatives; 2) Native Financial Skills and Enterprise Initiatives; and 3) Native Individual Development Account Initiative. The Native Communities Financing Initiatives is accompanied with technical assistance, allowing up to six days of on-site assistance to participants.

The CDFI Fund has contracted with two organizations to provide a series of workshops and technical assistance to participants in the three training initiatives.

Status of Financial Management

STATUS OF FINANCIAL MANAGEMENT

This section includes the assurance statement required under the Federal Managers' Financial Integrity Act, a summary of the results of the FY 2008 financial statement audit, a summary of the financial management initiatives of the Fund during FY 2008, and a discussion of the Fund's financial position and results of operations during the past fiscal year.

Management Assurances

Department of the Treasury Community Development Financial Institutions Fund Annual Assurance Statement for FY 2008

During Fiscal Year (FY) 2008, the Community Development Financial Institutions (CDFI) Fund, responsible for establishing and maintaining effective internal controls, has made a conscientious effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), Office of Management and Budget (OMB) Circular A-123, and the Reports Consolidation Act of 2000. The CDFI Fund is operating in accordance with the procedures and standards prescribed by the Comptroller General and Office of Management and Budget (OMB) guidelines.

The systems of management control for the CDFI Fund are designed to ensure that:

- (a) Programs achieve their intended results;
- (b) Resources are used consistent with the overall mission;
- (c) Programs and resources are free from waste, fraud, and mismanagement;
- (d) Laws and regulations are followed;
- (e) Controls are sufficient to minimize any improper and/or erroneous payments;
- (f) Performance information is reliable;
- (g) System security is in substantial compliance with all relevant requirements;
- (h) Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
- (i) Financial management systems are in compliance with Federal financial systems standards (i.e., FMFIA Section 4 and FFMIA).

For all CDFI Fund responsibilities, I provide herein reasonable assurance that the above-listed management control objectives, taken as a whole, were achieved by the CDFI Fund during FY 2008, with the sole exception below.

Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA, and I further assure that our financial management systems are in substantial compliance with the requirements imposed by the FFMIA.

The sole exception, albeit limited, relates to the reliability of certain performance information. Responses to two of the CDFI Fund's performance measures (related to "jobs created" and "project leverage"), set forth in the Performance and Accountability Report, are compiled from

information that is primarily self-reported by program awardees and allocatees. Although the CDFI Fund reviews a sample of the self-reported information for reasonableness and consistency with other information, as was previously noted in FY 2007, this information has not been subject to any third-party verification. In FY 2009, the CDFI Fund will undertake a thorough review and assessment of the merit, appropriateness, and verifiability of the data fields that awardees are required to complete annually through the Community Impact Information System.

Despite the absence of third-party verification, to my knowledge, there are no known integrity problems with any of the CDFI Fund performance measures. Furthermore, I do not believe that the reliability of said performance measure information constitutes a Material Weakness for the CDFI Fund.

The analytical basis for the type of assurance being provided is knowledge gained from daily operations, annual audits, management and internal control letters provided by the auditors, and continuous review of internal controls to ensure operational effectiveness.

It is significant to note that, in FY 2008, the CDFI Fund commenced a multi-faceted internal review of its administration, operations, policies, procedures, and systems. The review included: (i) an audit by the Department's Office of the Inspector General (OIG) of the CDFI Fund's post-award grant administration (currently in progress); (ii) an audit by the OIG of the CDFI Fund's information technology (IT) procurement contract (currently in progress); (iii) an assessment by the Department's Office of the Chief Information Officer (OCIO) of the CDFI Fund's IT systems and needs; and (iv) a business process review of the CDFI Program and the Native American CDFI Assistance (NACA) Program, conducted by Booz Allen Hamilton, which has resulted in updated internal Standard Operating Procedures from the setting of policy for a funding round through award monitoring and close-out.

In addition, the CDFI Fund entered into a reimbursable agreement with the Department for human services administration; further, the CDFI Fund's travel administration services were transferred to the Department, and the CDFI Fund began discussing a similar arrangement for the transfer of all procurement services.

The following are Significant Deficiencies within the CDFI Fund in FY 2008:

1. *Control of funds: During FY 2008, it was identified that there was the potential to obligate funding carried over from the prior year even though such funding had not yet been apportioned by the OMB. This deficiency was corrected in June, 2008 with the establishment of a process to reconcile all obligations of such funds with a schedule that reflects the amount of apportioned carryover funding available for obligation. In addition, the CDFI Fund's Office of the Chief Financial Officer (OCFO) has developed a corrective action plan that: (i) outlines the Chief Financial Officer's and the Financial Manager's oversight responsibilities related to the control of funds; (ii) describes the monitoring process developed for ensuring reconciliation of funds availability; and (iii) includes other pertinent steps to ensure compliance with the Anti-Deficiency Act.*
2. *Remote access to the CDFI Fund's network: The CDFI Fund has not yet implemented two-factor authentication for remote access to its network, thereby increasing risk of unauthorized access. This deficiency will be corrected when Treasury Network (TNet) is implemented (expected to occur in February 2009). Through TNet, remote users accessing the network will be required to do so using two-factor authentication, comprising a security token and a password to log in to the server at CDFI Fund.*
3. *Information technology operations and security: At my request, the Department's OCIO conducted assessments of the*

adequacy of the CDFI Fund's IT operational procedures and IT security controls, in June and July 2008, respectively. The IT operational procedures assessment determined that the CDFI Fund's grants management information system suffers from major design and technical shortcomings that strongly limit its ability to support the organization's core business processes in an efficient, accurate, scalable, and cohesive manner. Among others, the Department's OCIO made the following key recommendations: (i) cease all IT development activities for new and/or improved IT systems until the optimal or desired architecture is better defined; (ii) establish a System Engineering / Technical Assistance (SETA) contract to provide support services; and (iii) begin an effort to capture the CDFI Fund's enterprise architecture, both the baseline and the target architectures, along with a transition strategy/sequence plan that emphasizes the systems and processes required to bridge the gap between current operational capabilities and those provided through the Grants Management Line of Business model. The CDFI Fund, at my direction, will adopt each of these recommendations, as well as the other recommendations contained in the report.

The IT security controls assessment determined that: the CDFI Fund's IT systems suffer from a number of major design and technical shortcomings; IT security controls are not adequate; and Informational System Certification and Accreditation Plans are not consistent with Federal and Departmental security laws, policy, mandates and standards. Among others, the Department's OCIO made the following key recommendations: (i) acquire a Chief Information Security Officer; (ii) establish a program for conducting Independent Validation and Verification for operational security activities; and (iii) address certain specified areas of security program deficiencies related to CDFI Fund IT systems. The CDFI Fund, at my direction, will adopt each of these recommendations, as well as the other recommendations contained in the report.

4. Information technology procurement contract: At my request, the OIG is currently conducting an audit to determine whether contract actions and practices for IT development and support comply with the Federal Acquisition Regulation. Based on preliminary discussions with the OIG, it is likely that the audit report, when issued, will identify areas of significant concern and correction. The CDFI Fund will prepare a corrective action plan based on the final audit report (which is expected to be delivered in the first quarter of Fiscal Year 2009).

The following are Findings and Recommendations made by KPMG in the course of its audit of the CDFI Fund's FY 2008 statement of financial position, and the CDFI Fund's management responses:

1. KPMG found that the CDFI Fund "has not consistently followed procedures developed to determine if awardees are in compliance with the terms of their assistance agreements when they fail to submit annual information, as required by the award agreements." The CDFI Fund disagrees with the audit findings. The CDFI Fund has consistently followed procedures set forth in the Compliance Monitoring and Reporting Policies and Procedures for all awardees. Documentation of follow-up contact with awardees is housed and maintained in the Report Monitoring System (RMS), by date and by analyst. Awardee responsibilities for complying with annual reporting requirements are clearly set forth in the assistance agreement signed by the awardee. The CDFI Fund agrees that additional resources are required to improve its compliance monitoring follow-up. To that end, in FY 2008, the CDFI Fund hired a new Compliance Monitoring and Evaluation Program Manager; the CDFI Fund is currently recruiting to fill additional staff positions and is developing significant improvements to the RMS, which will be embodied in the new CDFI Compliance and Monitoring System (CCMS).

2. KPMG found that the CDFI Fund "should strive to continue to increase communications within its management group." In FY 2009, the CDFI Fund will continue to improve communications within its management group in order to be more effective and productive. In addition to continuing the many improvements successfully initiated by the Director in FY 2008, further improvements will include: (i) working with a contractor (engaged in FY 2008) to provide mentoring, coaching and "360-degree" assessments for managers; (ii) bi-weekly meetings of an internal technology investment committee; and (iii) the development and implementation by the Office of the Chief Operating Officer (OCFO) of an improved budget planning and review process. In addition, the CDFI Fund will improve its planning and management of the annual financial statement audit process, as noted.

Donna J. Gambrell
Director

Description of the CDFI Fund's Financial Management System

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

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

Results of FY 2008 Financial Statement Audit

The FY 2008 audit of the Fund's statement of financial position resulted in an unqualified opinion. The auditors reported two significant deficiencies, neither of which were considered material weaknesses. The auditors' report can be found starting on page 28.

FY 2008 Financial Management Initiatives

In FY 2008, the financial management focus was on continuing to implement and enhance prior year information technology initiatives.

Community Investment Impact System (CIIS)

CIIS is a web-based system designed to collect an Institution Level Report (ILR) and Transaction Level Report (TLR) from CDFIs and CDEs. The CDFI CIIS data collected includes the organization's profile, financial position, portfolio, community impacts, development services, other products and services, and compliance measures. The CDE CIIS data collected includes the organization's profile, QEI distribution, portfolio, loan purchases, and financial counseling and other services.

Cumulatively through 2007, CIIS was used by 479 CDFIs and 168 CDEs to report institutional level data. Through 2007, a cumulative total of 296 organizations submitted the transactional level details on over 85,000 distinct portfolios of loans and equity investments. This is about an 85 percent increase in the total number of transactions reported in the previous year, where there were close to 47,000 cumulative transactions through 2006.

In the past year, the Fund has used the CIIS data to analyze the characteristics of CDFIs (including their loan and investment portfolios, capital under management, operating revenues, and overall financial strength) and assess the impact CDFIs are having in the communities they serve. The second round of this analysis was published in December 2007 in "Three year trend analysis of CIIS Institutional level report data: FY 2003-2005." FY 2008 marks the second time that the Fund made the CIIS data available to the public (within the parameters of all applicable Federal information protection, privacy and confidentiality laws). The Fund provided public-use CIIS data and financial support to twelve independent research teams as part of its CDFI Research Initiative. This research will culminate in a published volume of research papers in the winter of 2008.

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

Migration to Grants.gov for Paperless Processing of Applications

The Federal Financial Assistance Management Improvement Act (P.L. 106-107), and the President's Management Agenda require all federal grant making agencies to migrate 100% of their electronic program applications to the Grants.gov system administered by the Department of Health and Human Services by September 30, 2007. During FY 2008, the Fund posted all of its applications to Grants.gov, therefore meeting this goal. The Fund realized cost savings associated with the intake and processing of all grant applications. During FY 2008 all applications were posted to Grants.gov using Adobe technology.

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

The Federal Financial Assistance Management Improvement Act and the President’s Management Agenda also require that all federal grant making agencies completely migrate their electronic grant processing systems to one of three federally selected centers of excellence. This initiative is known as the “Grants Management Line of Business.” The CDFI Fund has selected the Department of Health and Human Services, Administration for Children and Families, as our grant processor. An MOU has been signed between the organizations and a formal fit-gap analysis by HHS/ACF is currently in process. The fit-gap analysis results will be used to develop a detailed GMLoB transition plan. CDFI Fund has partnered with other grants programs within the U.S. Dept. of Treasury (i.e., three IRS programs LITC, TCE, and VITA) to observe cost savings and avoid duplication of efforts in addressing the gaps. CDFI Fund intends to migrate the NACA and BEA programs to GrantSolutions.gov by FY 2010, and migrate the remaining programs (i.e., the CDFI and NMTC) in FY 2011. During the transition period, the Fund will continue to run parallel systems for seamless operations and there will be no disruption of services to our customers. When this initiative is completed, it is anticipated that there will be a substantial cost savings to the Fund pertaining to the processing of grant applications.

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act of 2006 require all grant making agencies fully disclose all organizations that receive federal funds. This information will be reported to the public on a website maintained by the Office of Management and Budget. The Fund submitted FY 2007 data to Departmental Offices for posting to USASpend.gov. During FY 2008 the Fund will submit award data directly to USASpend.gov.

Management Responsibilities

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 Fund’s performance measures in accordance with the Office of Management and Budget requirements. The quality of the Fund’s internal control structure rests with management, as does the responsibility for identification of and compliance with applicable laws and regulations.

Limitations of the Financial Statements

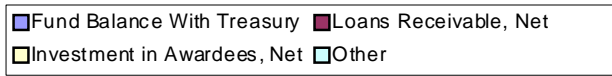
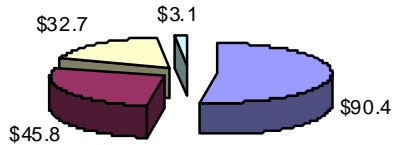
The financial statements report the financial position and results of operations of the Community Development Financial Institutions Fund for the years ended September 30, 2008 and 2007, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the 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			
<i>(amounts in millions)</i>			
	<u>FY 2008</u>	<u>FY 2007</u>	<u>Increase / (Decrease)</u>
Assets	\$172.0	\$144.2	\$27.8
Liabilities	\$63.4	\$56.2	\$7.2
Net Position	\$108.5	\$88.0	\$20.5
Revenue and Financing Sources	\$72.2	\$59.0	\$13.2
Expenses	\$72.7	\$60.6	\$12.1
(Shortage) of Revenue and Financing Financing Sources Under Expenses	(\$0.5)	(\$1.6)	\$1.1

September 30, 2008

(amounts in millions)



Assets

Assets increased by \$27.8 million during the year, primarily resulting from an increase in appropriations in FY 2007 to FY 2008.

Fund Balance with Treasury

The Fund Balance with Treasury reflected a specific change from the prior year, due to an increase of \$39.6 million of appropriations for FY 07 to FY 08. As a result, CDFI has increased the number awards issued during the current year and will disburse in the following fiscal year.

Loans Receivable

Loans receivable are increased when loan awards (under the CDFI and Native Initiative programs) are disbursed by the Fund and decreased for loan repayments and loan write-downs. During FY 2008, loans decreased by \$1.4 million, resulting from repayments of \$2.5 million and offset by additional loans disbursed during the year of \$1.1 million. The allowance for loan losses decreased by \$0.3 million. The effect of these transactions resulted in a net decrease in loans receivable of \$1.1 million.

Liabilities

The increase in liabilities during the year of \$7.3 million consisted of an increase in awards payable of \$7.5 million and an increase other liabilities by \$0.3 million, offset by a decrease in debt of \$0.5 million.

Awards Payable

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

Awards payable has decreased significantly over the past several years, going from \$64.7 million at the end of FY 2001, to \$13.3 million at the end of the FY

2007. This decrease occurred for two reasons: 1) the Fund’s annual budget appropriation for the BEA Program peaked in FY 2001 with a \$46 million appropriation, decreasing to \$20 million in FY 2008, so there was a smaller amount of BEA Program awards to make each year, and 2) the Fund has been able to disburse a significant amount of BEA awards over each of the past several years, since there is no matching funds requirement for BEA awardees.

Debt

The decrease in debt of \$0.5 million relates to repayments of amounts borrowed from Treasury to fund loans to awardees. Principal repayments collected from awardee loans during the year are used to repay the Treasury borrowings, and therefore amounts collected and repaid to Treasury each year will vary from year to year, as they are a function of awardee loan terms.

Net Position

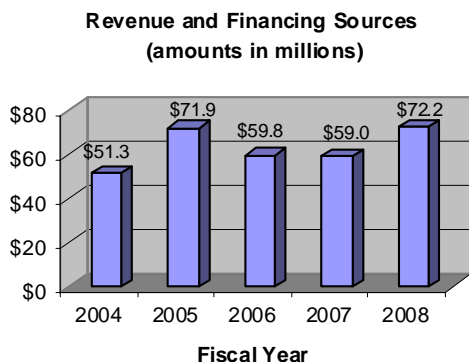
Net position increased during the year by \$20.5 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the Fund’s subsidy reestimate, and 3) the excess (or shortage) of revenue and financing sources over (under) expenses. During FY 2008, appropriations received (net of amounts cancelled and rescinded) were \$90.8 million, and appropriated capital used was \$69.8 million.

During the year, the Fund adjusted its subsidy reestimate downward by \$1.9 million, which required an additional borrowing from Treasury. As stated above, the amount borrowed is used to pay back to the Treasury Department the excess subsidy amounts appropriated in prior years. This \$1.9 million repayment reduces net position.

The shortage of net revenue and financial sources under expenses contributed an additional \$0.5 million of the decrease in net position (this amount is discussed below).

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

Revenue and Financing Sources



The primary source of revenue and financing sources for the Fund is the annual appropriation used to fund expenses (“appropriated capital used” as reflected in the statement of operations). Pursuant to Federal grant accounting requirements, the amount of appropriated funds recognized as revenue is, with certain adjustments, equal to the amount of operating expenses for the year. Operating expenses for the year excluding those paid for by others were \$68.8 million. An explanation for the \$11.7 million increase in operating expenses from FY 2007 to FY 2008 is discussed in the *Expenses* section below.

Expenses

The change in the Fund’s operating expenses during FY 2008 and FY 2007 consisted of the following:

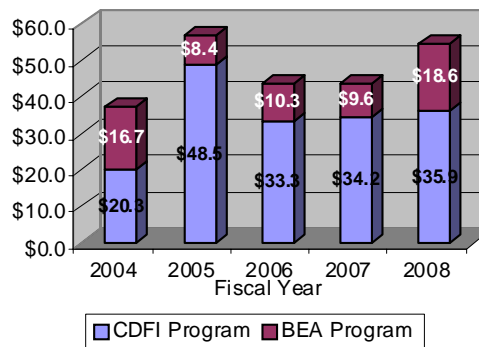
Comparison of Operating Expenses Fiscal Years 2008 and 2007 (amounts in millions)			
	<u>FY 2008</u>	<u>FY 2007</u>	<u>Difference</u>
Award Expenses	\$54.5	\$43.8	\$10.7
Administrative Expenses	\$15.2	\$14.3	\$0.9
Bad Debt Expense	(\$0.4)	(\$0.4)	\$0.0
Total Operating Expenses	\$69.3	\$57.7	\$11.6

Award Expenses

The award expenses during the year increased \$10.7 million due to an increase in the annual appropriations for FY 07 to FY 08.

Award Expenses

(amounts in millions)



Administrative Expenses

FY 2008 administrative expenses were \$0.9 million more than the prior year. The main reason for this increase was due to increase in personnel costs during FY 2008.

Bad Debt Expense

Bad debt expense is a function of the amount of loans receivable at year-end. The Fund’s allowance for bad debts is equal to 25 percent of loans receivable. Loans receivable decreased during FY 2008 by \$1.4 million, resulting in a decrease to the allowance for bad debts of \$0.4 million (the amount of the allowance for bad debts is a function of the loan receivable balance).

Shortage of Revenue and Financing Sources Under Expenses

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

For FY 2008, expenses not covered by budgetary resources totaled \$2.2 million, consisting of interest expense on Treasury borrowings.

Revenue and financial sources other than appropriated capital used and imputed financing sources totaled

\$1.7 million consisting of interest and dividends. The excess of the \$2.2 million of expenses not covered by appropriations exceeds the \$1.7 million of revenue and financing sources other than appropriated capital by \$0.5 million, representing the shortage of revenue and financing sources under expenses.

Independent Auditors' Reports



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the U S Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2008. The statement of financial position is the responsibility of the Fund's management. Our responsibility is to express an opinion on the statement of financial position based on our audit. We did not audit the related statements of operations and changes in net position and the statement of cash flows for the year then ended and, therefore, we do not express an opinion on those financial statements.

We conducted our audit of the Fund's statement of financial position as of September 30, 2008, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Fund's statement of financial position is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial position referred to above presents fairly, in all material respects, the financial position of the Fund as of September 30, 2008 in conformity with U.S. generally accepted accounting principles.

We were also engaged to audit the accompanying statement of financial position of the Fund as of September 30, 2007, and the related statements of operations, and changes in net position, and cash flows for the year then ended (referred to herein as fiscal year 2007 financial statements).

We were unable to obtain appropriate representations from management of the Fund with respect to the fiscal year 2007 financial statements, and it was impractical to extend our procedures to determine the effect of the lack of representations on these financial statements. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Fund's fiscal year 2007 financial statements.



The information in the Community Development Financial Institutions Fund Overview and Status of Financial Management is presented for the purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. Certain information presented in the Community Development Financial Institutions Fund Overview and Status of Financial Management is based on fiscal year 2008 financial statements that we were not engaged to audit. We did not audit this information and, accordingly, we express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2008, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 12, 2008



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control Over Financial Reporting

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

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2008 and have issued our report thereon dated November 12, 2008. We did not audit the related statements of operations and changes in net position and the statement of cash flows for the year then ended and, therefore, we do not express an opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free of material misstatements.

The management of the Fund is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2008 audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement of financial position. To achieve this purpose, we did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Fund's statement of financial position that is more than inconsequential will not be prevented or detected by the Fund's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the statement of financial position will not be prevented or detected by the Fund's internal control.



We consider the control deficiencies, described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we do not believe that these significant deficiencies are material weaknesses.

The Fund's response to the findings identified in our audit are presented in Exhibit I. We did not audit the Fund's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the Fund in a separate letter dated November 12, 2008.

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

KPMG LLP

November 12, 2008

Community Development Financial Institutions Fund

Significant Deficiencies and Recommendations

Improvements needed in management communication (Repeat Condition)

Members of management of CDFI continue to have difficulty communicating with each other. Significant information is not shared with other members of management. While performing the audit, we received information from the CFO's office which was contradicted by the Director's office. In other situations, important information was not communicated to all members of management on a timely basis (i.e. the departure of the financial manager and the plans for addressing that; the change in Phase 2 of the Booz Allen business process review and the reason for the change was not effectively communicated; and the change in the signature process for approval of Notice of Awards was not fully understood by the CFO's Office). There have been a number of changes implemented at the Fund to increase communications during the year; however, these changes have not been effective in resolving the communication issues.

The recommendations of the Booz Allen Hamilton Business Process Review were implemented however; they did not solve CDFI's management communication issues. Past experiences and the inability to work as a cohesive team has resulted in inhibited communications among members of CDFI management. Members of management also represented that communications have not improved during 2008, despite the various improvement efforts.

During our audit, we observed numerous instances of ineffective interdivisional communication. Frequent misunderstandings and incohesiveness among divisions led to a negative impact on efficiencies of processes, contributed to low employee morale and frustration, and ultimately impacted the quality of work performed.

Recommendations

1. We recommend that CDFI continue to hold Communications and/or Team Building Training and weekly management group meetings, that convey information to all members of management, identify concerns at an early stage, enable management to develop teams to resolve the concerns, and present a forum for management to report back to the entire management group on issue resolution.
2. We recommend that the performance evaluation for each member of the senior management group includes an element for communication effectiveness.
3. We recommend the Fund review the physical location of senior management in the Office of the Chief Financial Officer. All members of senior management should be located on the same floor. This relocation may increase the interaction and communication in the management group.
4. We recommend that CDFI schedule team briefing meetings that emphasize downward, upward, and lateral communications throughout the Fund. This will enable clarity and consistency of direction and information from senior management and among senior management. The Fund should emphasize the "quality" of the meetings, not "quantity" to achieve effective

communications. The Fund should develop a meeting environment that facilitates debate and discussion and not one-sided dialogue.

5. We recommend the Fund re-evaluate the roles and responsibilities of each of the offices to ensure the functions are in line with the responsibilities of that office.

Management's Response

In FY 2009, the CDFI Fund will continue to improve communications within its management group in order to be more effective and productive. In addition to continuing the many improvements successfully initiated by the Director in FY 2008, further improvements will include:

- o working with a contractor (engaged in FY 2008) to provide mentoring, coaching and "360-degree" assessments for managers;
- o bi-weekly meetings of an internal technology investment committee; and
- o the development / implementation by the Office of the Chief Operating Officer (OCFO) of an improved budget planning and review process.

In addition, the CDFI Fund will improve its planning and management of the annual financial statement audit process.

Improvements needed in controls over awards monitoring (Repeat Condition)

The Fund has not consistently followed established written policies and procedures to determine if awardees are in compliance with the terms and conditions of their assistance agreements. CDFI does not adequately monitor the receipt of the annual information submitted by the awardees nor does the Fund consistently follow up and document issues identified by the financial reports received. Awardees are required to submit financial statement audit conducted in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. However, the Fund could not verify that all awardees that are required to submit A-133 reports have done so. In addition, the Compliance and Monitoring Evaluation division could not provide a report to identify the status of the most recent single audit reporting requirements for awardees and the actions taken for non-compliance with the terms and conditions of their assistance agreements as of September 30, 2008. CDFI does not follow its policies and procedures to ensure that the grantees are complying with their assistance agreements. Additionally, the Fund has not allocated sufficient resources to timely identify, resolve, and close all audit reports that identify questioned costs or other findings.. This could result in awardees' using Federal funds inconsistently with the objectives of the grant; programs and resources may not be protected from waste, fraud, and mismanagement; laws and regulations may not be followed; excess funds not spent may not be returned; and reliable and timely information may not be obtained, maintained, reported, or used for decision-making.

Recommendations

1. We recommend the Fund obtain the necessary resources to improve its compliance and monitoring procedures and implement a process that identifies specific awardee responsibilities for complying with these reporting requirements and the specific follow-up procedures that should be performed and documented.

2. We recommend the Fund implement a policy to require that personnel search the Federal Audit Clearinghouse to identify awardees that have submitted A-133 reports. This will increase oversight of awardees and verify the information being reported by awardees.

Management's Response

The CDFI Fund disagrees with the audit findings. The CDFI Fund has consistently followed procedures set forth in the Compliance Monitoring and Reporting Policies and Procedures for all awardees. Documentation of follow-up contact with awardees is housed and maintained in the Report Monitoring System (RMS), by date and by analyst. Awardee responsibilities for complying with annual reporting requirements are clearly set forth in the assistance agreement signed by the awardee. The CDFI Fund agrees that additional resources are required to improve its compliance monitoring follow-up. To that end, in FY 2008, the CDFI Fund hired a new Compliance Monitoring and Evaluation Program Manager; the CDFI Fund is currently recruiting to fill additional staff positions and is developing significant improvements to the RMS, which will be embodied in the new CDFI Compliance and Monitoring System (CCMS).

KPMG Conclusion

CDFI did not consistently follow their policies and procedures for ensuring that grantees complied with their assistance agreements. Accordingly, we reaffirm our finding and recommendations.



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

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

We have audited the statement of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2008, and have issued our report thereon dated November 12, 2008. The statement of financial position is the responsibility of the Fund's management. Our responsibility is to express an opinion on the statement of financial position based on our audit. We did not audit the related statements of operations and changes in net position and the statement of cash flows for the year then ended and, therefore, we do not express an opinion on those financial statements.

We were also engaged to audit the accompanying statement of financial position of the Fund as of September 30, 2007, and the related statements of operations, and changes in net position, and cash flows for the year then ended (referred to herein as fiscal year 2007 financial statements).

We were unable to obtain appropriate representations from management of the Fund with respect to the fiscal year 2007 financial statements, and it was impractical to extend our procedures to determine the effect of the lack of representations on these financial statements. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Fund's fiscal year 2007 financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free of material misstatement.

The management of the Fund is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Fund. As part of obtaining reasonable assurance about whether the Fund's statement of financial position is free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the statement of financial position amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Fund. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.



The results of our tests of compliance described in the preceding paragraph, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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

KPMG LLP

November 12, 2008

Financial Statements and Notes

Community Development Financial Institutions Fund
Statements of Financial Position
As of September 30, 2008 and 2007

Assets	2008	(Unaudited) 2007
Current assets:		
Fund Balance with Treasury (Note 2)	\$ 90,410,166	59,535,767
Advances and prepayments	749,272	781,050
Loans receivable, net of allowance for bad debts of \$1,457,693 in 2008 and \$772,800 in 2007 (Note 4)	4,373,080	2,318,400
Investments (Note 3)	750,000	75,000
Interest receivable	339,022	584,834
Other receivables	-	18,506
Total current assets	96,621,540	63,313,557
Long-term assets:		
Loans receivable, net of allowance for bad debts of \$13,821,048 in 2008 and \$14,866,789 in 2007 (Note 4)	41,463,144	44,600,366
Investments, net of fair value adjustments of \$5,922,221 in 2008 and \$5,406,326 in 2007 (Note 3)	31,971,582	34,161,359
Internal-use software, net of accumulated amortization of \$2,884,379 in 2008 and \$2,260,486 in 2007	1,482,874	2,106,768
Internal-use software in development	436,050	-
Total long-term assets	75,353,650	80,868,493
Total assets	\$ 171,975,190	144,182,050
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 536,479	350,651
Awards payable	15,176,353	9,325,573
Accrued payroll	317,927	239,704
Accrued annual leave	377,724	309,834
Debt (Note 5)	428,530	1,318,162
Total current liabilities	16,837,013	11,543,924
Long-term liabilities:		
Debt (Note 5)	40,974,332	40,583,688
Awards Payable	5,623,842	4,021,591
Total long-term liabilities	46,598,174	44,605,279
Total liabilities	63,435,187	56,149,203
Commitments (Note 6)		
Net position (Note 7)		
Total liabilities and net position	\$ 171,975,190	144,182,050

The accompanying notes are an integral part of these statements

Community Development Financial Institutions Fund
Statements of Operations and Changes in Net Position
Years Ended September 30, 2008 and 2007
(Unaudited)

	<u>2008</u>	<u>2007</u>
Revenue and financing sources:		
Appropriated capital used	\$ 69,790,071	56,558,832
Imputed financing sources- expenses paid by others (Note 9)	607,683	530,728
Interest, non-federal	1,240,463	1,343,199
Interest, federal	176,738	128,981
Dividends	349,042	251,722
Realized gain on disposition of investments	-	154,118
	<u>72,163,997</u>	<u>58,967,580</u>
Expenses:		
CDFI grants	35,884,231	34,248,315
BEA grants	18,647,976	9,620,922
Administrative (Note 11)	14,615,331	13,781,097
Bad debt expense	(360,848)	(437,299)
Administrative expenses paid by others (Note 9)	607,683	530,728
	<u>69,394,373</u>	<u>57,743,763</u>
Treasury borrowing interest	2,222,201	2,344,795
Unrealized loss on investments	1,089,776	509,106
	<u>72,706,350</u>	<u>60,597,664</u>
Shortage of revenue and financing sources under expenses	<u>\$ (542,353)</u>	<u>(1,630,084)</u>
Changes in Net Position:		
Net position, beginning of year	\$ 88,032,847	94,539,675
Shortage of revenue and financing sources under expenses	(542,353)	(1,630,084)
Other changes (Note 8)	<u>21,049,509</u>	<u>(4,876,744)</u>
Net position, end of year	<u>\$ 108,540,003</u>	<u>88,032,847</u>

The accompanying notes are an integral part of these statements

Community Development Financial Institutions Fund
Statements of Cash Flows
Years Ended September 30, 2008 and 2007
(Unaudited)

	2008	2007
Cash flows from operating activities:		
Shortage of revenue and financing sources under expenses	\$ (542,353)	(1,630,084)
Adjustments affecting cash flow:		
Appropriated capital used	(69,790,071)	(56,558,832)
Realized gain on disposition of investments	-	(154,118)
Unrealized loss on investments	1,089,776	509,106
Proceeds from disposition of investments	425,000	219,902
Amortization expense	623,893	623,893
Decrease in advances and prepayments	31,778	270,673
Increase in Investments in awardees	-	(2,075,000)
Decrease (increase) in interest receivable	245,812	(67,851)
Decrease (increase) in other receivable	18,506	(18,506)
Increase in allowance for bad debts	(360,848)	(437,299)
Increase (decrease) in accounts payable and accrued payroll	264,051	(152,330)
Increase in awards payable	7,453,030	7,890,218
Increase in accrued annual leave	67,890	42,430
	<u>(60,473,536)</u>	<u>(3,452,669)</u>
Net cash used by operating activities		
Cash flows from investing activities:		
Acquisition of internal-use software	(436,050)	-
Loans disbursed	(1,096,906)	(995,000)
Collection of loan principal	2,540,298	4,537,669
	<u>1,007,342</u>	<u>3,542,669</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Appropriations received	95,078,368	55,454,434
Appropriations cancelled	(2,340,417)	(3,456,953)
Borrowings from Treasury	2,864,834	1,390,524
Subsidy repayments to Treasury	(1,898,370)	(315,393)
Loan payments to Treasury	(3,363,822)	(5,000,523)
	<u>90,340,593</u>	<u>48,072,089</u>
Net cash provided by financing activities		
Net change in Fund balance with Treasury	30,874,399	76,960
Fund balance with Treasury, beginning of year	<u>59,535,767</u>	<u>59,458,807</u>
Fund balance with Treasury, end of year	<u>\$ 90,410,166</u>	<u>59,535,767</u>

The accompanying notes are an integral part of these statements

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes to Financial Statements

September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

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

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

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

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

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

(b) Basis of Presentation

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

accepted accounting principles for those federal entities, such as the Fund, that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Fund financial statements are presented in accordance with accounting standards published by the FASB.

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

(c) *Fund Balance with Treasury*

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

(d) *Fair Value of Financial Instruments*

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

1) *Fund Balance with Treasury*

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

2) *Loans Receivable and Debt*

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

3) *Investments*

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

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

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

- Convertible debt securities – Fair values were estimated using the same methodology as used for non-voting equity securities described above, based on the assumption that the securities were converted into stock.
- Secondary capital securities – These investments have terms similar to loans, and accordingly fair values were estimated by discounting future projected cash flows at the Treasury rate of securities with similar maturities.
- Certificates of deposit – The carrying amount approximates fair value because of the liquid nature of the investments.

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

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

(e) Loans Receivable

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

(f) Interest Receivable

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

(g) Investments

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

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

In the event the Fund's evaluation results in an adjustment to fair value, an unrealized gain or loss is recorded and the investment balance is adjusted accordingly.

The Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. The Fund considers convertible subordinated debentures to be equity investments because they exhibit sufficient characteristics of equity securities. For example, convertible subordinated debentures entitle the Fund to any dividends in the non-voting common stock into which it is convertible as if the Fund had converted the debentures into such stock prior to the declaration of the dividend.

(h) Internal-Use Software

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

The software is amortized using the straight-line method over the estimated useful life of seven years. Amortization expense for the years ended September 30, 2008 and 2007 was \$623,893 and \$623,893, respectively. (Unaudited)

(i) Awards Payable

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

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

(j) Retirement Plans

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

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

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

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

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

(k) Annual, Sick, and Other Leave

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

(l) Debt

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

(m) Contingencies

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

(n) **Revenue and Financing Sources**

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

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

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

(o) **Tax Status**

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

(p) **Use of Estimates**

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

(2) **Fund Balance with Treasury**

Fund balance with Treasury as of September 30, 2008 and 2007 consisted of the following components:

	<u>2008</u>	<u>Unaudited 2007</u>
Available	\$ 3,382,280	2,885,074
Obligated	85,664,264	54,796,049
Expired	<u>1,363,622</u>	<u>1,854,644</u>
	<u>\$ 90,410,166</u>	<u>59,535,767</u>

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

(3) Investments

Investments relate to capital provided to CDFI Program awardees and consist of the following as of September 30, 2008 and 2007:

	<u>2008</u>	<u>Unaudited 2007</u>
Investments, at Cost		
Non-voting equity securities	\$ 28,554,820	28,554,820
Convertible debt securities	2,000,000	2,573,882
Secondary capital securities	4,625,000	5,000,000
Limited partnership interest	3,288,983	3,288,983
Certificates of deposit	175,000	225,000
Investments, at cost	<u>38,643,803</u>	<u>39,642,685</u>
Reserve for unrealized losses		
Non-voting equity securities	(4,775,000)	(4,050,000)
Convertible debt securities	—	(459,106)
Limited partnership interest	(1,147,221)	(897,220)
Total reserve for unrealized losses	<u>(5,922,221)</u>	<u>(5,406,326)</u>
Investments, at fair value	<u>\$ 32,721,582</u>	<u>34,236,359</u>

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

Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2008 and 2007, this category included one debenture of \$2 million which matures January 2048 with the option to convert into 200,000 shares of non-voting class B common stock at a \$10 per share conversion price.

The other convertible debt security of \$573,882 included at September 30, 2007 was with a bank holding company. In 2008 it was determined that this investment would not be collectable and accordingly was written off in the current year.

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

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

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

(4) Loans Receivable

Loans receivable are primarily from the funds provided to awardees. Receivables consisted of the following:

	<u>2008</u>	<u>Unaudited 2007</u>
Balance as of beginning of year	\$ 62,558,357	66,698,847
Add: Loans awarded	1,096,906	995,000
Less: Loan repayments	(2,540,298)	(4,537,668)
Less: Write off of loans	-	(597,824)
Allowance for doubtful accounts	(15,278,741)	(15,639,589)
Loans receivable, net	<u>\$ 45,836,224</u>	<u>46,918,766</u>

The changes in the allowance for doubtful accounts consisted of the following:

Balance as of beginning of year	\$ (15,639,589)	(16,674,712)
Net Decrease in allowance	360,848	437,299
Write off of loans	-	597,824
Balance as of end of year	<u>\$ (15,278,741)</u>	<u>\$ (15,639,589)</u>

Current loans receivable as of September 30, 2008 were \$4,373,080 (net of allowance of \$1,457,693). Long-term loans receivable as of September 30, 2008 was \$41,463,144 (net of allowance of \$13,821,048).

Current loans receivable as of September 30, 2007 were \$2,318,400 (net of allowance of \$772,800). Long-term loans receivable as of September 30, 2007 were \$44,600,366 (net of allowance of \$14,866,789). (Unaudited)

Interest accrues on these loans in accordance with applicable awardee assistance agreements. Interest income for the years ended September 30, 2008 and 2007 was \$1,240,463 and \$1,343,199, respectively (Unaudited). Interest receivable for the years ended September 30, 2008 and 2007 was \$339,022 and \$584,834 (Unaudited), respectively.

(5) Debt

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>Unaudited 2007</u>
Beginning balance	\$ 41,901,850	45,511,849
New borrowings	2,864,834	1,390,524
Repayments	(3,363,822)	(5,000,523)
Ending balance	<u>\$ 41,402,862</u>	<u>41,901,850</u>

The earliest principal repayment due date to Treasury is September 30, 2009. Current portion due to Treasury for the years ended September 30, 2008 and 2007, is \$428,530 and \$1,318,162, respectively. Principal payments on this debt as of September 30, 2008 are as follows:

<u>Fiscal Year</u>	<u>Principal Payments</u>
2009	\$ 428,530
2010	1,705,335
2011	12,914
2012	652,006
2013	2,643,507
Thereafter	<u>35,960,570</u>
	<u>\$41,402,862</u>

During fiscal year 2008, the Fund borrowed \$2,590,737 to finance current year direct loan commitments and subsidy reestimates and \$274,097 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.55% to 6.77%, depending on maturity dates or risk categories. The Fund repaid \$3,363,822 in principal to the U.S. Treasury from collections of loans receivable. (Unaudited)

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

Interest paid for the years ended September 30, 2008 and 2007 was \$2,222,201 and \$2,344,796, respectively. (Unaudited)

(6) Commitments

(a) Operating Leases (Unaudited)

The Fund leases office space from the General Services Administration in the Homer Building located in Washington, D.C. under the terms of an operating lease (renewed in FY 2007) which expires in January 2012. The Fund also leases equipment under the terms of an operating lease. The total operating lease expense was \$1,283,464 and \$1,365,792 for the years ended September 30, 2008 and 2007, respectively.

Future minimum payments due under these operating leases as of September 30, 2008 were as follows:

<u>Fiscal Year</u>	<u>Minimum lease payments</u>
2009	\$1,461,549
2010	1,458,847
2011	1,458,847
2012	1,458,847
2013	<u>20,276</u>
	<u>\$5,858,366</u>

(b) Award and Purchase Commitments (Unaudited)

As of September 30, 2008 and 2007, award commitments amounted to \$63,510,459 and \$38,304,553, respectively. Award commitments relate to CDFI Program and Native Initiative Program awards which were approved by Fund management but not disbursed as of the end of the year. These award commitments are not considered liabilities at year-end because the awardees have not met the conditions required for payment. Award commitments pertaining to the Bank Enterprise Award (BEA) Program of

\$20,800,195 and \$13,347,164 as of September 30, 2008 and 2007, respectively, are excluded from these amounts since they are reflected as liabilities on the Fund's balance sheet.

Purchase commitments of \$3,900,335 and \$4,353,444 as of September 30, 2008 and 2007, respectively, relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

(7) Net Position

Net position as of September 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>Unaudited 2007</u>
Unexpended appropriations:		
Unobligated available	\$ 15,149,671	14,394,542
Unobligated expired	1,363,622	1,854,644
Undelivered orders	<u>64,707,034</u>	<u>41,061,091</u>
Total unexpended appropriations	81,220,327	57,310,277
Cumulative results of operations	<u>27,319,676</u>	<u>30,722,570</u>
	<u>\$ 108,540,003</u>	<u>88,032,847</u>

(8) Other Changes in Net Position (Unaudited)

Other changes in net position for the years ended September 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Appropriations received	\$ 94,000,000	54,505,779
Appropriation for Subsidy Reestimate	1,078,367	948,655
Appropriation Cancelled	(2,340,417)	(3,456,953)
Appropriation Used	(69,790,071)	(56,558,832)
Downward Reestimate Adjustment	<u>(1,898,370)</u>	<u>(315,393)</u>
Total other changes in net position, net	<u>\$ 21,049,509</u>	<u>(4,876,744)</u>

(9) Imputed Financing (Unaudited)

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Pension Cost (CSRS Retirement Plan)	\$ 69,674	63,497
Pension Cost (FERS Retirement Plan)	—	(3,221)
Health Insurance (Health Benefits Program)	266,220	257,705
Life Insurance (Group Life Insurance Program)	908	791
Audit Fees	270,881	211,956
Total	<u>\$ 607,683</u>	<u>530,728</u>

(10) Shortage of Revenue and Financing Sources Under Expenses (Unaudited)

The shortage of revenue and financing sources under expenses for fiscal year 2008 and 2007 includes \$51,900 and \$1,139,363, respectively, of grants and subsidies that were funded from the Fund's no-year account. The no-year account consists of the proceeds from the redemption of investments (see note 3 for a description of the types of investments) as well as income received from these investments.

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

(11) Administrative Expenses (Unaudited)

Administrative expenses consist of the following for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Personnel compensation and benefits	\$ 6,973,567	5,819,004
Travel	321,673	258,618
Rent, communications, utilities and miscellaneous charges	1,496,774	1,603,348
Contractual services	4,857,380	4,774,550
Information technology systems maintenance	191,197	490,811
Amortization	623,893	623,893
Supplies and printing	82,253	168,697
Other	68,594	42,176
Total	<u>\$ 14,615,331</u>	<u>13,781,097</u>

Appendices

Appendix A 2008 CDFI Fund Award and Allocation Activities

STATE	FA Awards		TA Awards (1)		NI Awards		BEA Awards		Total Awards	
	#	\$	#	\$	#	\$	#	\$	#	\$
Alabama	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Alaska	-	\$0	-	\$0	1	\$564,485	-	\$0	1	\$564,485
Arizona	-	\$0	1	\$274,409	7	\$1,600,951	-	\$0	8	\$1,875,360
Arkansas	1	\$96,800	-	\$0	-	\$0	-	\$0	1	\$96,800
California	5	\$5,020,232	5	\$1,035,947	2	\$224,589	4	\$2,228,337	16	\$8,509,105
Colorado	1	\$1,100,000	2	\$696,708	-	\$0	-	\$0	3	\$1,796,708
Connecticut	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Delaware	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
District of Columbia	1	\$1,069,140	1	\$595,050	-	\$0	1	\$657,996	3	\$2,322,186
Florida	1	\$1,000,000	1	\$99,180	-	\$0	-	\$0	2	\$1,099,180
Georgia	-	\$0	1	\$518,781	-	\$0	1	\$155,081	2	\$673,862
Hawaii	-	\$0	1	\$77,000	-	\$0	-	\$0	1	\$77,000
Idaho	1	\$741,000	-	\$0	-	\$0	-	\$0	1	\$741,000
Illinois	2	\$1,943,395	4	\$983,588	-	\$0	12	\$6,137,751	18	\$9,064,734
Indiana	-	\$0	-	\$0	-	\$0	2	\$81,000	2	\$81,000
Iowa	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Kansas	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0

Appendix A 2008 CDFI Fund Award and Allocation Activities

STATE	FA Awards		TA Awards (1)		NI Awards		BEA Awards		Total Awards	
	#	\$	#	\$	#	\$	#	\$	#	\$
Kentucky	3	\$2,642,362	-	\$0	-	\$0	6	\$571,666	9	\$3,214,028
Louisiana	2	\$2,193,788	1	\$84,291	-	\$0	2	\$738,309	5	\$3,016,388
Maine	-	\$0	1	\$329,590	1	\$649,992	-	\$0	2	\$979,582
Maryland	1	\$1,000,000	1	\$240,990	-	\$0	-	\$0	2	\$1,240,990
Massachusetts	1	\$1,000,000	-	\$0	-	\$0	2	\$975,000	3	\$1,975,000
Michigan	-	\$0	2	\$187,351	1	\$147,885	1	\$6,000	4	\$341,236
Minnesota	2	\$1,717,060	2	\$684,711	1	\$93,899	3	\$1,887,399	8	\$4,383,069
Mississippi	-	\$0	1	\$96,876	-	\$0	-	\$0	1	\$96,876
Missouri	-	\$0	1	\$111,324	-	\$0	3	\$795,000	4	\$906,324
Montana	1	\$1,090,345	3	\$713,151	2	\$198,180	-	\$0	6	\$2,001,676
Nebraska	-	\$0	1	\$590,785	-	\$0	-	\$0	1	\$590,785
Nevada	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
New Hampshire	1	\$1,000,000	-	\$0	-	\$0	-	\$0	1	\$1,000,000
New Jersey	1	\$1,000,000	-	\$0	-	\$0	1	\$675,000	2	\$1,675,000
New Mexico	2	\$2,124,511	2	\$324,596	2	\$287,699	-	\$0	6	\$2,736,806
New York	3	\$3,000,000	1	\$100,000	-	\$0	3	\$1,665,000	7	\$4,765,000
North Carolina	2	\$2,000,000	3	\$748,642	1	\$557,250	2	\$114,000	8	\$3,419,892

Appendix A 2008 CDFI Fund Award and Allocation Activities

STATE	FA Awards		TA Awards (1)		NI Awards		BEA Awards		Total Awards	
	#	\$	#	\$	#	\$	#	\$	#	\$
North Dakota	-	\$0	-	\$0	2	\$184,181	-	\$0	2	\$184,181
Ohio	1	\$1,032,629	1	\$481,299	-	\$0	-	\$0	2	\$1,513,928
Oklahoma	1	\$1,065,690	1	\$599,550	2	\$1,268,157	1	\$36,000	5	\$2,969,397
Oregon	-	\$0	1	\$99,751	1	\$122,561	1	\$675,000	3	\$897,312
Pennsylvania	3	\$3,076,391	1	\$100,000	-	\$0	-	\$0	4	\$3,176,391
Puerto Rico	-	\$0	1	\$75,647	-	\$0	-	\$0	1	\$75,647
Rhode Island	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
South Carolina	-	\$0	1	\$99,738	-	\$0	2	\$214,400	3	\$314,138
South Dakota	1	\$1,094,609	-	\$0	3	\$1,288,420	-	\$0	4	\$2,383,029
Tennessee	1	\$1,098,178	-	\$0	-	\$0	2	\$463,962	3	\$1,562,140
Texas	2	\$2,082,797	1	\$580,000	-	\$0	-	\$0	3	\$2,662,797
Utah	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
U.S. Virgin Islands	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Vermont	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Virginia	1	\$1,073,985	1	\$299,986	-	\$0	-	\$0	2	\$1,373,971
Washington	1	\$1,065,000	1	\$99,408	-	\$0	1	\$675,000	3	\$1,839,408
West Virginia	-	\$0	-	\$0	-	\$0	-	\$0	0	\$0
Wisconsin	2	\$1,825,472	-	\$100,000	-	\$388,747	-	\$1,350,000	7	\$3,664,219

Appendix A 2008 CDFI Fund Award and Allocation Activities

STATE	FA Awards		TA Awards (1)		NI Awards		BEA Awards		Total Awards	
	#	\$	#	\$	#	\$	#	\$	#	\$
			1		2			2		
Wyoming	-	\$0	-	\$0	1	\$647,511	-	\$0	1	\$647,511
Amounts Awarded in FY 2008 Funding Round	<u>44</u>	<u>43,153,384</u>	<u>45</u>	<u>11,028,349</u>	<u>29</u>	<u>8,224,507</u>	<u>52</u>	<u>20,101,901</u>	<u>170</u>	<u>82,508,141</u>

(1) Consists of both Technical Assistance Awards and Small and Emerging CDFIs Assistance (SECA) Awards

(2) Consists of New Markets Tax Credit Awardees headquartered in these states. Amounts shown represent amount of equity to be raised.

Appendix B

Total Fund Awards From Inception

State	FA Awards	TA/SECA Awards	Native Initiative Awards (1)	BEA Awards	Total Awards From Inception	NMTC Allocations (2)
Alabama	\$145,000	\$475,500	\$0	\$615,075	\$1,235,575	\$40,000,000
Alaska	\$7,912,500	\$306,000	\$1,046,080	\$0	\$9,264,580	\$40,000,000
Arizona	\$5,806,500	\$491,867	\$3,401,464	\$809,288	\$10,509,119	\$275,000,000
Arkansas	\$10,239,300	\$605,647	\$70,000	\$5,075,223	\$15,990,170	\$15,000,000
California	\$59,126,712	\$3,470,294	\$864,067	\$40,086,241	\$103,547,314	\$1,599,000,000
Colorado	\$9,631,300	\$3,409,066	\$270,000	\$2,116,915	\$15,427,281	\$327,000,000
Connecticut	\$2,883,500	\$863,044	\$0	\$373,205	\$4,119,749	\$0
Delaware	\$923,731	\$122,000	\$0	\$2,751,000	\$3,796,731	\$50,000,000
District of Columbia	\$14,803,342	\$1,353,850	\$0	\$6,557,450	\$22,714,642	\$1,595,000,000
Florida	\$17,823,800	\$1,355,798	\$0	\$9,491,003	\$28,670,601	\$15,000,000
Georgia	\$3,783,900	\$735,281	\$0	\$6,785,864	\$11,305,045	\$384,000,000
Hawaii	\$1,000,000	\$807,825	\$721,121	\$1,069,199	\$3,598,145	\$28,000,000
Idaho	\$3,534,300	\$200,000	\$0	\$0	\$3,734,300	\$0
Illinois	\$36,276,975	\$2,458,535	\$0	\$41,577,477	\$80,312,987	\$536,300,000
Indiana	\$2,308,000	\$362,500	\$0	\$1,609,188	\$4,279,688	\$93,000,000
Iowa	\$3,990,000	\$265,050	\$0	\$508,500	\$4,763,550	\$259,700,000
Kansas	\$1,903,000	\$240,504	\$25,000	\$2,752,432	\$4,920,936	\$0
Kentucky	\$18,906,525	\$811,460	\$0	\$5,996,612	\$25,714,597	\$280,500,000
Louisiana	\$6,655,603	\$846,270	\$0	\$2,672,418	\$10,174,291	\$1,381,000,000
Maine	\$12,058,856	\$891,951	\$2,488,868	\$1,481,251	\$16,920,926	\$481,000,000
Maryland	\$16,548,360	\$858,236	\$176,040	\$2,330,221	\$19,912,857	\$1,098,000,000
Massachusetts	\$19,823,200	\$2,981,868	\$0	\$7,179,405	\$29,984,473	\$873,000,000
Michigan	\$6,115,000	\$527,404	\$846,376	\$1,232,686	\$8,721,466	\$102,000,000
Minnesota	\$19,077,360	\$1,745,615	\$3,381,382	\$5,642,000	\$29,846,357	\$828,000,000
Mississippi	\$12,291,250	\$323,376	\$0	\$2,529,857	\$15,144,483	\$50,000,000
Missouri	\$1,310,109	\$259,824	\$0	\$5,448,034	\$7,017,967	\$752,000,000
Montana	\$2,537,145	\$1,302,056	\$1,064,540	\$315,962	\$5,219,703	\$70,000,000
Nebraska	\$350,000	\$1,004,628	\$265,000	\$97,832	\$1,717,460	\$23,000,000
Nevada	\$0	\$581,452	\$0	\$339,200	\$920,652	\$0

Appendix B

Total Fund Awards From Inception

State	FA Awards	TA/SECA Awards	Native Initiative Awards (1)	BEA Awards	Total Awards From Inception	NMTC Allocations (2)
New Hampshire	\$9,565,000	\$93,425	\$0	\$1,132,000	\$10,790,425	\$65,000,000
New Jersey	\$11,226,064	\$706,469	\$0	\$5,262,390	\$17,194,923	\$393,000,000
New Mexico	\$9,313,011	\$489,665	\$287,699	\$185,705	\$10,276,080	\$110,000,000
New York	\$77,126,627	\$7,607,670	\$184,000	\$51,520,326	\$136,438,623	\$2,734,250,000
North Carolina	\$30,009,523	\$2,457,205	\$1,792,846	\$28,694,498	\$62,954,072	\$800,000,000
North Dakota	\$635,000	\$69,520	\$583,868	\$15,000	\$1,303,388	\$0
Ohio	\$9,219,620	\$1,573,058	\$0	\$3,755,203	\$14,547,881	\$1,073,000,000
Oklahoma	\$2,734,190	\$599,550	\$3,730,255	\$2,401,680	\$9,465,675	\$315,000,000
Oregon	\$5,051,250	\$529,001	\$122,561	\$6,353,348	\$12,056,160	\$361,500,000
Pennsylvania	\$38,699,971	\$3,638,521	\$0	\$1,873,327	\$44,211,819	\$548,500,000
Puerto Rico	\$300,000	\$190,647	\$0	\$0	\$490,647	\$0
Rhode Island	\$750,000	\$389,900	\$0	\$0	\$1,139,900	\$0
South Carolina	\$500,000	\$392,338	\$0	\$2,140,179	\$3,032,517	\$289,000,000
South Dakota	\$7,166,403	\$582,000	\$5,334,971	\$722,250	\$13,805,624	\$130,000,000
Tennessee	\$9,323,178	\$150,100	\$95,000	\$4,319,173	\$13,887,451	\$35,250,000
Texas	\$17,737,267	\$4,327,209	\$0	\$15,142,992	\$37,207,468	\$62,000,000
Utah	\$2,000,000	\$392,500	\$353,000	\$120,000	\$2,865,500	\$100,000,000
U.S. Virgin Islands	\$770,000	\$0	\$0	\$0	\$770,000	\$0
Vermont	\$9,570,549	\$490,055	\$0	\$0	\$10,060,604	\$2,000,000
Virginia	\$5,294,385	\$1,523,076	\$0	\$23,000	\$6,840,461	\$296,000,000
Washington	\$8,651,250	\$1,081,939	\$1,726,800	\$3,080,991	\$14,540,980	\$155,000,000
West Virginia	\$2,439,000	\$331,768	\$0	\$0	\$2,770,768	\$4,000,000
Wisconsin	\$11,456,986	\$1,079,103	\$1,574,343	\$5,116,435	\$19,226,867	\$831,000,000
Wyoming	\$0	\$0	\$1,264,364	\$0	\$1,264,364	\$0
TOTALS	\$567,304,542	\$58,351,620	\$31,669,645	\$289,302,035	\$946,627,842	\$19,500,000,000

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

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

Appendix C GLOSSARY OF TERMS

ALLOCATION (OF TAX CREDITS)

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

BANK

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

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

BANK ENTERPRISE AWARD (BEA) PROGRAM

Through the Bank Enterprise Award (BEA) Program, the CDFI Fund provides awards to insured depository institutions that increase their level of activities in the form of loans, investments, services, and technical assistance within distressed communities.

BEA Program awardees can also provide financial assistance to CDFIs through grants, stock purchases, loans, deposits, and other forms of financial and technical assistance. In general, an award is made based on the lender's success in certain BEA Program-qualified activities that were projected in the application for BEA CDFI Funds. The BEA Program regulations are found at 12 CFR Part 1806.

COMMUNITY DEVELOPMENT ENTITY (CDE)

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

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

1. Has a primary mission of promoting community development;
2. Serves an eligible investment area or targeted population;
3. Has a predominant business activity of providing Financial Products, loans or certain equity investments;
4. In conjunction with its loans or development investments, provides development activities and services that promote community development

(ex. financial management technical assistance, financial or credit counseling); and

5. Maintains accountability to residents of the investment area or targeted population through representation on its governing board or otherwise.

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) CDFI FUND

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

COMMUNITY INVESTMENT IMPACT SYSTEM (CIIS)

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

EQUITY

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

CDFI FUNDING ROUND

Each CDFI Fund application and award is identified with a CDFI Funding round that corresponds to the fiscal year for which the

CDFI Fund issues a Notice of Awards Availability (NOFA).

NATIVE AMERICAN CDFI ASSISTANCE (NACA) PROGRAM

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

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

NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

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

NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

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

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

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

QUALIFIED EQUITY INVESTMENT (QEI)

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

QUALIFIED LOW-INCOME COMMUNITY INVESTMENT (QLICI)

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

TECHNICAL ASSISTANCE

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

UNDERSERVED COMMUNITY

An Underserved Community may include the following: 1) An Investment Area under the CDFI Program; 2) A Targeted Population under the CDFI Program; 3) A Low-Income Community under the NMTC Program; and/or 4) A Distressed Community under the BEA Program. Many Native American Communities also qualify as Underserved Communities.

“Native American Communities” are defined as any Native American, Alaska Native or Native Hawaiian populations, lands or Census-equivalent entities, with the exception of State or Tribal Designated Statistical Areas.