Audit Report

OIG-10-009

Audit of the Community Development Financial Institutions Fund's Fiscal Year 2009 Financial Statements and Fiscal Year 2008 Statement of Financial Position

November 16, 2009

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 2009 PAR,
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 16, 2009

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

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Community Development Financial Institutions Fund's Fiscal Year 2009 Financial Statements and Fiscal Year 2008 Statement of Financial Position

I am pleased to transmit the attached audited Community Development Financial Institutions Fund (CDFI) financial statements for fiscal year 2009 and 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 statements of financial position as of September 30, 2009 and 2008 and the related statements of operations and changes in net position and cash flows for the year ended September 30, 2009. 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*, as amended*;* 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 financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. However, KPMG LLP identified three significant deficiencies related to (1) the accounting process for estimating loan loss reserves; (2) accounting for investments; and (3) the preparation and review of the financial statements, 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 10, 2009, discussing a matter involving internal control over financial reporting 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 performed 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 financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 10, 2009 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 2009

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Appendices

Message from the Director

I am pleased to present the CDFI Fund's Performance and Accountability Report for fiscal year 2009. This past year has presented extraordinary challenges for our nation, and the CDFI Fund has been called upon to play a significant role in helping to revitalize the economy. As this Report demonstrates, the CDFI Fund has served with distinction in answering that call.

President Barack Obama views the CDFI Fund as a key part of his strategy to address the economic challenges within distressed communities, and early this year Congress and the new Administration took major steps to expand the CDFI Fund's mission and impact. The first of these was the passage of the American Recovery and Reinvestment Act (Recovery Act) on February 17, 2009, which provided the CDFI Fund extra funding—$100 million beyond our annual appropriation for fiscal year 2009 and an additional $3 billion of New Markets Tax Credit allocation authority—to enhance the lending capacity of CDFIs and investments made by Community Development Entities. Days later, on February 26, President Obama released his budget for the 2010 fiscal year. The new budget requests an increase in the CDFI Fund's current budget of $107 million for 2009 to $243.6 million for 2010—an increase of 127 percent.

At the CDFI Fund, we are mindful of the tremendous responsibility that we have been given, and we have been committed to moving swiftly to implement the new Administration's agenda. Just four and a half months after the enactment of the Recovery Act, we announced financial assistance to 59 CDFIs and to 10 Native CDFIs**.** By September 1, 2009, we had disbursed 100 percent of the funds awarded to CDFIs through the Recovery Act. We also re-opened the 2008 New Markets Tax Credit Program application round to award an additional $1.5 billion of Recovery Act allocation authority within 100 days of enactment, and closed all of the award agreements within 30 days of the award announcement. And on October 30, we announced $5 billion in NMTC awards, including $1.5 billion made possible through the Recovery Act, for more than 90 organizations in communities around the country.

In addition, under supplemental rounds of our CDFI and Native American CDFI Assistance (NACA) programs, the CDFI Fund has made financial assistance awards totaling $4.4 million to 10 organizations through the NACA Program and $52.7 million to 62 organizations through the CDFI Program. We have also made awards totaling more than $22 million to 55 depository institutions under our Bank Enterprise Award Program.

Awarding funds is just one way that the CDFI Fund has been helping to address the economic crisis. Last fall, as the crisis deepened, we formed a new Advisory Board Subcommittee to determine the impact of the crisis on the institutions that the CDFI Fund supports and to offer policy recommendations to increase our support. We have already implemented several of the Subcommittee's recommendations, including creating a new Office of Training and Outreach, and launching a new Capacity-Building Initiative for CDFIs.

I am very proud of the CDFI Fund's outstanding accomplishments in 2009, and I would like to thank the exceptional men and women of the CDFI Fund for their hard work and dedication to serving low-income communities across the nation. Indeed, the CDFI Fund's employees are its greatest asset. Although the road to economic recovery may be long, I am certain that our commitment to creating economic opportunity for all—and our record of accomplishments—will only grow as we meet the challenges that lie ahead.

Donna J. Gambrell
Director
The CDFI Fund

Fund Overview (Unaudited)

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. The breadth and depth of the CDFI Fund's reach was further expanded in FY 2009 with the enactment of legislation that created the Capital Magnet Fund, which will be implemented in FY 2010, subject to funding availability.

Since its creation in 1994, the CDFI Fund has awarded \$1.13 billion to CDFIs, community development organizations, and financial institutions through the CDFI Program, the Bank Enterprise Award (BEA) Program, and the Native Initiatives. In addition, the CDFI Fund has allocated \$26 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 monetary awards to banks for increasing their investment in low-income communities and/or in CDFIs;

4) the ***Native Initiatives***, which provides financial assistance, technical assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs; and

5) the ***Financial Education and Counseling Program***, through which the CDFI Fund shall provide grants to Eligible Organizations to enable them to provide a range of financial education and counseling services to prospective homebuyers.

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 financial assistance awards through the CDFI Program and the Native American CDFI Assistance (NACA) Program. Technical assistance awards are available to certified CDFIs and entities that propose to become certified, through both programs.

CDFIs provide a unique and wide range of financial products and services that help their customers build wealth and achieve the goal of participating in the ownership society. While the types of products made available are generally similar to those provided by larger mainstream financial institutions (such as mortgage financing for low-income and first-time homebuyers, small business lending, and lending for community facilities), CDFIs often lend to and make equity investments in markets that may not be served by regulated financial institutions. CDFIs may offer rates and terms that are more flexible than those provided by traditional financial institutions. CDFIs also provide services that 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 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.

CDFI certification is a requirement for accessing a financial assistance award from the CDFI Fund through the CDFI Program and the NACA Program, and certain benefits through the BEA Program. The term of CDFI certification is three years, after which CDFIs must apply for recertification in order to maintain their initial certification. As of September 30, 2009, there were 798 certified CDFIs. During FY 2009, 55 CDFIs were newly certified, 14 more than were certified in the prior year, which represents a 34 percent increase. Nevertheless, the overall number of certified CDFIs declined by 1.2 percent in 2009 due to increased mergers and acquisitions — particularly among banks, thrifts, bank holding companies, and credit unions — and attrition in the certification status of other institutions.

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 people, and must demonstrate that they are accountable (through representation on a governing board or advisory board) to residents of low-income communities. CDEs are certified as such by the CDFI Fund and are eligible to apply for allocation of tax credit authority through the NMTC Program.

Many CDEs create multiple subsidiary CDEs to own specific assets or classes of assets, and thus the number of CDEs grew to 3,938 as of September 30, 2009. Benefits of CDE certification include being able to: (1) apply to the CDFI Fund to receive an allocation of NMTC authority to offer to investors in exchange for equity investments in the CDE and/or its subsidiaries; or (2) receive loans or investments from other CDEs that have received a NMTC allocation. CDEs must be certified in order to receive allocations of tax credit authority. The table below shows the totals of certified CDFIs and CDEs through FY 2009.

Annual Number of Certified CDFIs and CDEs

End of FY	CDFIs	CDEs
1997	190	
1998	262	-
1999	334	-
2000	415	-
2001	468	31
2002	625	541
2003	694	1,184
2004	728	1,585
2005	752	1,954
2006	762	2,294
2007	778	2,680
2008	808	3,434
2009	798	3,938

CDEs are headquartered in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. CDFIs are located headquartered 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 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 propose to become certified 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. TA 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 spurs the investment of new private sector capital into low-income areas through CDEs, which in turn use 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. A further provision allowed for an additional $3.5 billion in tax allocation authority under the program through 2009. Included in this provision was a requirement that Treasury 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 authority were submitted to the CDFI Fund. As of the end of October 30, 2009, seven allocation rounds have been completed providing allocations of tax credit authority that will support, in the aggregate, equity investments of $2,626 billion, including the $3 billion in allocation authority authorized under the American Reinvestment and Recovery Act (Recovery Act).

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

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

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

The CDFI Fund's Native Initiatives are intended to assist entities in overcoming barriers that prevent access to credit, capital, and financial services in Native American, Alaskan Native, and Native Hawaiian communities. The Native Initiatives' central component 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, the Native Initiatives provide training to help strengthen and develop Native CDFIs.

Financial Education and Counseling Program: *Performance Goal: Provide grants to Eligible Organizations to enable them to provide a range of financial education and counseling services to prospective homebuyer.*

The ultimate program goals of the FEC Program are to identify successful methods resulting in positive behavioral change for financial empowerment, and to establish program models for organizations to carry out effective financial education and counseling services to prospective homebuyers.

Performance Measures: This Performance and Accountability Report includes a discussion of the performance measures the CDFI Fund considers the most significant. For a discussion of all of the CDFI Fund's performance measures, see the applicable appendix in the ***FY 2009 Performance and Accountability Report*** for the Department of the Treasury.

Allocation of CDFI Fund 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 credit authority through the NMTC Program. As NMTCs are not monetary awards, they are not reflected in the chart below. NMTC Program funding (as shown in the chart) represents program administration costs.

Sources of Funding

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

Sources of CDFI Fund Funding
(amounts in millions)

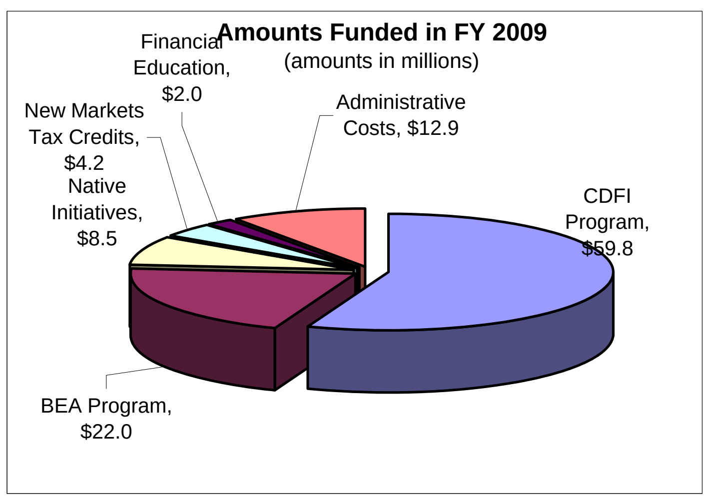
	FY 2009	FY 2008
Appropriations	$107.0	$ 94.0
Prior Year Amounts Deobligated, Used to Fund Current Year Obligations	0.5	1.0
Carryover from Prior Year	1.0	1.9
Borrowing Authority Used	0.9	2 .5
Total Sources of Funds	$109.4	$ 99.4

Note – above amounts do not include appropriations received for the Recovery Act nor those pertaining to credit subsidy reestimates.

In FY 2009, the CDFI Fund used funding of $109.4 million as follows:

Uses of Funding
(amounts in millions)

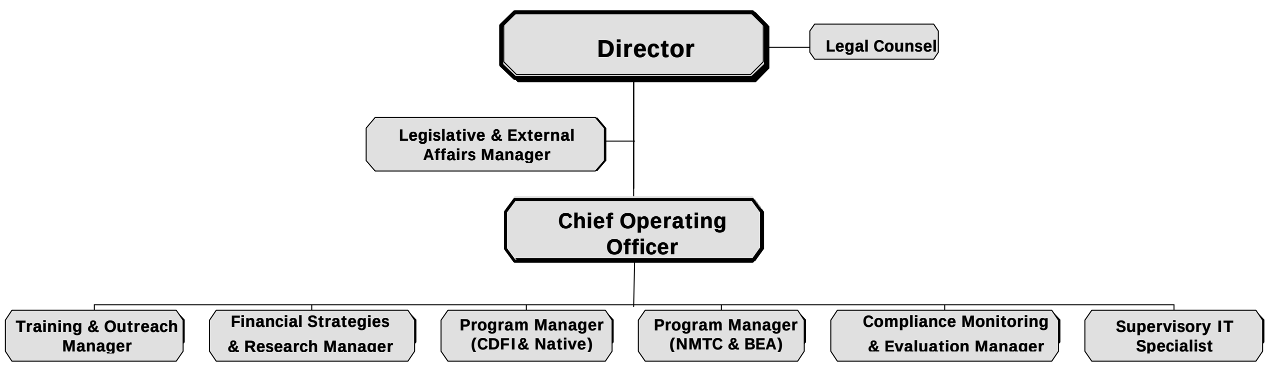
	FY 2009	FY 2008
Amounts Funded		
CDFI Program	$59.8	$54.2
BEA Program	22.0	20.6
Native Initiatives	8.5	9.2
New Markets Tax Credits	4.2	0.0
Financial Education	2.0	0.0
Administrative Costs	12.9	14.6
Total Amounts Funded	$109.4	$98.6
Amounts Not Obligated	0.0	0.8
Total Funding Used	**$109.4**	**$99.4**



ORGANIZATION OF THE CDFI FUND

The CDFI Fund's organizational structure consists of the respective offices of the Director, Chief Operating Officer, Manager for Legislative and External Affairs, Legal Counsel, CDFI and Native Program Manager, NMTC and BEA Program Manager, Certification, Compliance Monitoring & Evaluation Manager, Financial Strategies and Research Manager, Training and Outreach Manager, Supervisory IT Specialist, 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 2009



Program Discussion and Analysis (Unaudited)

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. Through the CDFI Program, the CDFI Fund provides monetary awards for Financial Assistance (FA) and Technical Assistance (TA). CDFIs use FA awards to further goals such as:

- Economic development (job creation, business development, and commercial real estate development);
- Affordable housing (housing development and homeownership); and
- Community development financial services (provision of basic banking services 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 2009, the CDFI Fund certified 798 CDFIs serving 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 that provide capital to rebuild economically distressed communities through targeted lending and investment;
- Community development credit unions are non-profit cooperatives owned by members that promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people;
- Community development loan funds (usually non-profits) provide financing and development services to businesses, organizations and individuals in low-income urban and rural areas and can be further categorized based on the type of client served: micro-enterprise, small business, housing and community service organizations; and
- Community development venture capital funds include both profit and non-profit organizations that provide equity and debt-with-equity features for businesses in distressed communities.

CDFI Customers

CDFI customers include (among others):

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

- Affordable housing developers who construct and rehabilitate homes in low-income communities;

- Community facilities used to provide child care, health care, education and social services in underserved communities;

- Commercial real estate developers who finance the acquisition, construction or rehabilitation of retail, office, industrial and community facility space in low-income communities; and

- Individuals who are provided affordable banking services including checking and savings accounts, alternatives to predatory financial companies, and mortgages and other kinds of loans.

Financial Assistance

The CDFI Program consists of two components, Financial Assistance and Technical Assistance (FA and TA). FA is by far the most subscribed and consists of two categories: Category 1 – Small and Emerging CDFI Assistance (SECA); and Category 2 – Core. 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.

Applicants applying to the CDFI Fund must demonstrate they have 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 their awards with non-federal funding.

The CDFI Program makes FA awards in the form of equity investments, loans, deposits, or grants, depending on the type of non-federal matching funds the applicant brings to the initiative. FA awards enable CDFIs to leverage private capital for affordable financial products and services in economically distressed markets. CDFIs respond to this demand providing loans, investments, training, technical assistance, and basic financial services such as checking or savings accounts.

FY 2009 Awards

In FY 2009, the CDFI Fund conducted two FA funding rounds – one using funds allocated through the American Recovery and Reinvestment Act of 2009 (Recovery Act) (the initial funding round) and one using funds through the FY 2009 appropriation (the supplemental funding round).

Applicants that did not receive awards in the initial funding round were considered for supplemental funding round awards, along with the applicants that specifically submitted supplemental funding round applications. (Details on Recovery Act awards can be found in a separate section of the PAR). Supplemental funding round awards were announced in early October 2009.

In the supplemental funding round, the CDFI Fund received 194 applications and considered 123 unfunded applicants from the initial funding round. Therefore, a total of 317 applicants were considered for the supplemental funding round, in total requesting an estimated total of $532 million.

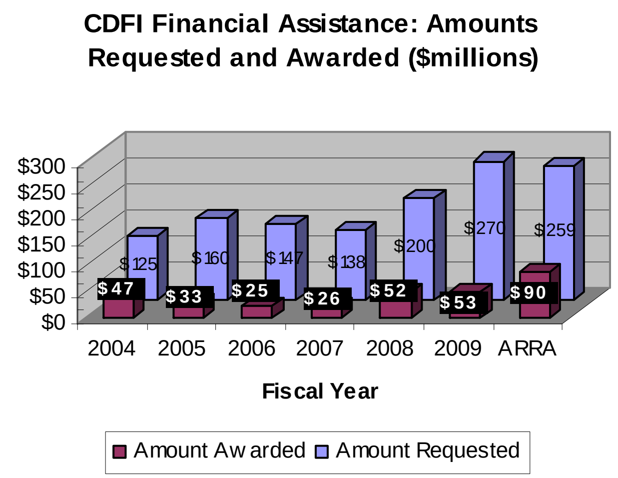
Of the 317 supplemental round applicants, 100 were in the SECA category, with 38 unfunded applicants from the initial funding round and 62 from the supplemental funding round. SECA applicants requested approximately a total of $63 million. In the supplemental funding round, the CDFI Fund considered 217 Core applicants, with 85 unfunded applicants from the initial funding round and 132 that specifically applied for supplemental funding round awards. In combination, Core applicants requested a total of $443 million.

Table 1 – FY 2009 FA Awards

	Awards	Amount Awarded	Awards	Amount Awarded
Round	Initial Round		Supplemental Round	
Core	40	$79,050,000	46	$44,910,000
SECA	19	$10,950,000	16	$7,805,000
Totals	59	$90,000,000	62	$52,715,000

The CDFI Fund made over $52.7 million awards to 62 organizations in the supplemental funding round. Sixteen SECA applicants were awarded a total of $7.8 million; 46 Core applicants received a total of $45 million. All awards were for FA only. (Please see Table 1 – FY 2009 FA Awards.)

The following graph shows the total amount of FA funds requested and awarded since FY 2004. The CDFI Program has consistently received more applications than it can fund. In FY 2009, it received almost twice as much funding than it had in FY 2007, but it also received more applications requesting more dollars. The CDFI Fund capped awards at $1 million, as in past years, in an attempt to meet the heavy demand. By capping award amounts, the CDFI Fund is able to make more awards.



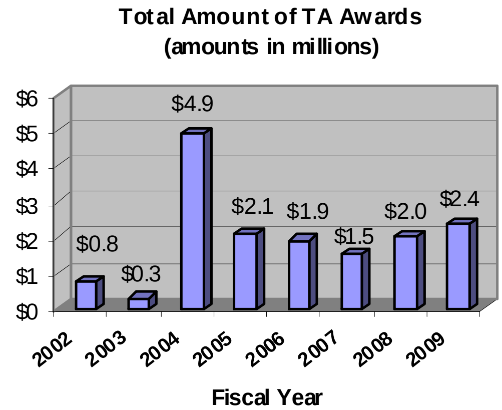
Technical Assistance

Through the Technical Assistance (TA) component of the CDFI Program, the CDFI Fund provides grants to build the capacity of both start-up and existing CDFIs. TA grant funds can be used for items such as staff salaries, benefits, staff training, professional services, supplies and equipment. Applicants often request funds to analyze their target markets, develop lending policies and procedures, or to build staff lending capacity.

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

FY 2009 Awards

In FY 2009, the CDFI Fund received 79 applications requesting more than $7.4 million in TA grants. Twenty-seven organizations received awards totaling about $2.4 million. The following graph shows the total amount of Technical Assistance awards since 2002.



Recovery Act 2009: Financial Assistance

In February 2009, the CDFI Program received $90 million in funds through the Recovery Act. In order to disburse the funding as quickly and efficiently as possible into the national economy, Recovery Act funding was used for awards made through the initial funding round

Applicants that did not receive an award in the initial funding round were also considered for an award during the supplemental funding round (using FY 2009 appropriated dollars), as described above. The Recovery Act waived the matching funds requirement, as well as the $5 million limit on awards that an awardee can receive in a 3-year period.

In the initial funding round (using Recovery Act dollars), the CDFI Program considered 125 applicants requesting a total of $229.7 million. Fifty-nine awards were made totaling $90 million, with individual awards ranging from $500,000 to $2 million (Table 1). Awards were announced on June 29, 2009 and funds were fully disbursed within 60 days. All Recovery Act awards under the CDFI Program were for FA only.

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 FY2009 performance information provided herein pertains to each awardee's performance results for program year 2008. It should also be noted that the lag in performance reporting reflects the time it takes to deploy funds and make investments for which actual and projected results can be estimated. In practice, the lag reflects the length of time from notice of award to award disbursement, the time it takes for an awardee to deploy the funds, and additional time it takes to compute and report awardee impact information to the CDFI Fund's CIIS reporting system. The performance results for program year 2008 are summarized in the table to the right and are based on information entered into CIIS by reporting CDFI Program awardees.

Performance of CDFI Program Awardees During FY 2009 *

1. # of Full Time Jobs Created or Maintained (77)**	70,260
2. # of Businesses Financed (104)**	10,792
3. # of Commercial Real Estate Properties Financed (55) **	1,676
4. # of Affordable Housing Units Financed (22)**	2,133
5. # of Homebuyers Who Obtain Financing (50) **	1,998
6. # of Accounts Opened to the Unbanked (11)**	4,235
7. Dollars, in millions, Leveraged with Private Investments**	$1,298
8. # of Individuals Provided with Financial Literacy and Other Training (126)**	159,546
9. Individual Development Accounts (IDAs) Provided by CDFIs (53)**	6,478
10. Dollar amount, in millions, of IDAs (54)**	$5.86

* FY2009 PAR Data based on Program activities reported in 2008.

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

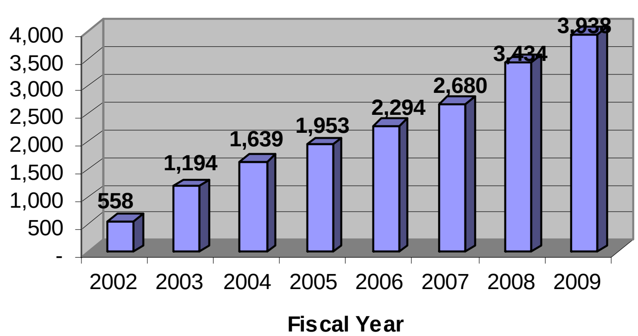
New Markets Tax Credit Program

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, 2009, 3,938 organizations were certified as CDEs by the CDFI Fund, compared to 3,434 as of one year earlier.

Number of Certified Community Development Entities At Year End



Results of First Seven NMTC Allocation Rounds

Since inception of the NMTC Program, the CDFI Fund has been authorized to allocate to CDEs the authority to issue to their investors a total of $26 billion in equity against which NMTCs can be claimed, including $3 billion of special allocation authority made available under the American Recovery and Reinvestment Act (Recovery Act) of 2009.

Allocations are awarded annually through a competitive process. To date, the CDFI Fund has completed seven allocation rounds and has made 495 awards totaling $26 billion in allocation authority, including the $3 billion of Recovery Act-authorized allocations — $1.5 billion through the 2008 NMTC allocation round, and $1.5 billion through the 2009 NMTC allocation round.

	Applications		Allocations	
Round	Number	Amount (Billions)	Number	Amount (Billions)
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	102	$5.0
7	249	$22.5	99	$5.0
	1,824	$179.1	495	$26.0

Demand for the tax credits has been high since program inception, as 1,824 applicants have requested credits supporting in total over $179 billion in equity investments – roughly seven times the amount of allocation authority available for distribution by the CDFI Fund. Through the first seven allocation rounds, only 27 percent of applicants were selected to receive an award. The average tax credit allocation award through the first seven rounds was approximately $52.5 million.

Recovery Act 2009

2009 NMTC Allocation Round Summary

In October of 2009, the CDFI Fund announced that 99 applicants were awarded $5.0 billion in NMTC allocation authority, including $1.5 billion in Recovery Act-authorized allocation authority. The 99 allocatees are headquartered in 30 different states, the District of Columbia, and Puerto Rico and anticipate making awards in 49 different states, the District of Columbia, and Puerto Rico.

In the 2009 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 sought to ensure that: 1) the number of "Rural CDEs" (i.e., CDEs that focus at least 50 percent of their activities in non-metropolitan areas) were proportionately represented in the awardee pool; and 2) at least 20 percent of the total NMTC dollars would be invested in invested in non-metropolitan areas. As a result, seven of the 99 awardees are rural CDEs; and the 99 awardees will collectively invest a minimum of approximately $965 million dollars in non-metropolitan communities.

These 99 allocatees have committed to achieving results above and beyond minimal program requirements:

- Ninety-six of the 99 allocatees indicated that 100 percent of their investment dollars will be made either in the form of equity, equity equivalent financing, or debt that is at least 50 percent below market and/or is characterized by at least five concessionary features, with the remaining three allocatees committing to providing debt that is at least 33 percent 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.

- Ninety-five of the allocatees indicated that at least 90 percent 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 91 that indicated that 100 percent of their activities will be provided in such areas.

- All 99 of the allocatees indicated that they will invest more than the minimally required 85 percent of QEI dollars into Qualified Low-Income Community Investments (QLICI), and 96 of the 99 allocatees indicated that at least 95 percent of their QEI dollars will be invested into qualified low-income community investments. In real dollars, this means at least $630 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 396 allocatees from the first six rounds. As of September 30, 2009, allocatees had reported raising QEIs totaling over $14.3 billion. This figure represents over 73.3 percent of the $19.5 billion in allocation authority issued to CDEs through calendar year 2008.

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 for 2008. As shown in the table below, allocatees reported making $2.89 billion of loans and investments in Qualified Active Low Income Community Businesses (QALICBs) in FY 2008, and a total of $11.86 billion of loans and investments in QALICBs since the program's inception. In FY 2008, 59 percent of the dollars invested were invested in "real estate QALICBs (i.e., businesses that develop or lease real property for use by others).

The remaining 41 percent of the dollars were invested in "non-real estate QALICBs" (i.e., operating businesses) in low-income communities. The allocatees reported that 98.9 percent of the loans and investments they provided in FY 2008 had better rates and terms than could be offered in the prevailing market. Finally, in FY 2008, allocatees also reported making over $259 million in direct investments into other CDEs, purchasing $128.2 million in loans from other CDEs, and providing financial counseling and other services to 5,493 businesses in low-income communities.

Performance of NMTC Allocatees			
Type of QLICI		**FY 2009 Performance**	**FY 2003 - FY 2009 Cumulative Performance***
QALICB: Real Estate			
	Loans and investments supporting real estate development and rehabilitation in low-income communities.	$1.694 billion	$7.702 billion
		417 loans/investments	1,695 loans/investments
QALICB: Non-Real Estate			
	Loans and investments supporting businesses operating in low-income communities.	$1.195 billion	$4.162 billion
		415 loans/investments	1,638 loans/investments
CDE			
	Loans and investment in other CDEs.	$259.0 million	$535.5 million
		77 loans/investments	167 loans/investments
Loan Purchases			
	Purchase of loans from CDEs.	$128.2 million	$282.5 million
FCOS			
	Investment in Financial Counseling and Other Services (FCOS).	10.9 million	23.9 million
	Number of businesses receiving FCOS.	5,493 businesses served	14,886 businesses served

* Cumulative performance is based on data available as of September 14, 2009. 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 FY08 annual performance figures reported by the CDFI Fund in this and previous Performance and Accountability reports. Please note that data for square footage of commercial real estate projected to be developed and rehabilitated, the number of full-time equivalent (FTE) construction jobs projected to be created or maintained, and the number of full-time equivalent (FTE) jobs projected to be created or maintained will not be reported in the PAR 2009 because, at the time of publication, the CDFI Fund staff was revalidating the methodology for computing these performance data, in consultation with GAO.

Bank Enterprise Award Program

Through the Bank Enterprise Award (BEA) Program, the CDFI Fund recognizes the key role played by insured depository institutions in community development lending and investing. The program 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. 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 the increase in the amount of Qualified Activities from a Baseline Period to a later Assessment Period (the corresponding time in the following year). Qualified Activities consist of financial assistance provided to certified CDFIs, loans made by financial institutions in distressed communities (for example, affordable housing loans, small business loans, real estate development loans), and financial services provided in distressed communities (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 in severely underserved areas (referred to as the Distressed Community Financing Activities and Service Activities).

The CDFI Fund awards 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 FDIC-insured depository institutions 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), or community services provided to low- to moderate-income individuals or the institutions serving them.

FY 2009 BEA Program Awards

For FY 2009, the CDFI Fund received 58 eligible applications requesting a total of more than $57 million, compared to 60 applications requesting a total of approximately $49 million in FY 2008. The CDFI Fund selected 55 FDIC-insured institutions to receive approximately $22 million in awards. The FY 2009 applicants are headquartered in 24 states and the District of Columbia, compared to the 19 states and the District of Columbia represented in the prior year.

FY 2009 applicants provided $310.6 million in qualified loans or investments in distressed communities, $173.7 million in qualified loans, deposits and technical assistance to CDFIs, and $53.2

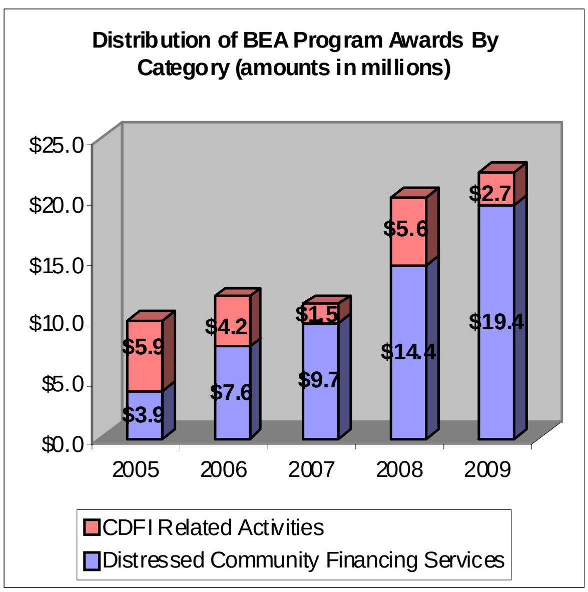
million in qualified financial services in distressed communities.

FY 2009 Community Impact

FY 2009 BEA Program awardees increased their qualified community development activities by $292.3 million over the prior year:

- $214.2 million increase in loans and investments in distressed communities;
- $74.6 million increase in loans, deposits, and technical assistance to CDFIs; and
- $3.5 million increase in the provision of financial services in distressed communities.

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

In November 2001, the CDFI Fund published the *Report on the Native American Lending Study*, which forms the basis for creating the Native Initiatives. The study evaluated access to credit, capital and financial services in Native American, Alaskan Native and Native Hawaiian communities and identified barriers to provide such financing. To address these barriers, the Native Initiatives increase 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. Providing technical assistance to overcome barriers to creating and sustaining Native CDFIs;
3. Making technical and financial assistance awards 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 in Native Communities; and
6. Facilitating networking and in-depth training forums in community development finance.

These objectives are achieved through two principle strategies. The first strategy is to provide funding through the Native American CDFI Assistance (NACA) Program, which increases the number and capacity of existing or new Native CDFIs. The second strategy is to provide training to help create new Native CDFIs or strengthen the operational capacity of existing ones.

NACA Program FY 2009

The NACA Program helps emerging and existing Native CDFIs build their capacity to address the community development and capital needs of Native Communities. The program provides FA awards and TA grants to Native CDFIs.

Financial Assistance Awards

In FY 2009, the CDFI Fund conducted two funding rounds for the NACA Program – one using Recovery Act funds (the initial funding round) and one using annual appropriated funds (the supplemental funding round).

Applicants that did not receive initial funding round awards were considered for supplemental funding round awards, along with the applicants that specifically submitted initial funding round applications. (Details on the Recovery Act awards can be found in a separate section of the PAR.) Supplemental funding round awards were announced on September 28, 2009.

During FY 2009, the CDFI Fund received and considered 17 applications for supplemental funding round awards. NACA FA Applicants requested a total of $9.8 million and the CDFI Fund made 10 FA/TA awards to NACA applicants for a total of $4.5 million.

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) support on-going operational activities such as staff salary, rent and utilities.

TA-only applications were due to the CDFI Fund on December 17, 2008. During FY 2009, the CDFI Fund received 32 applications for TA-only, requesting a total of approximately $4.6 million. The CDFI Fund awarded about $3.3 million to 27 TA-only awardees.

Training Initiatives

Under the Native Initiatives, the CDFI Fund engages contractors to provide training and technical assistance to existing and emerging Native CDFIs. The Expanding Native Opportunities component involves 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 are 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.

Financial Education and Counseling Program

In FY 2009, the CDFI Fund was appropriated $2 million to administer a Financial Education and Counseling (FEC) Program. Through the FEC Pilot Program, the CDFI Fund may provide grants to eligible organizations (including CDFIs) to enable such organizations to provide a range of Financial Education and Counseling Services to Prospective Homebuyers, with the goals of: (i) increasing the financial knowledge and decision-making capabilities of Prospective Homebuyers; (ii) assisting Prospective Homebuyers to develop monthly budgets, build personal savings, finance or plan major purchases, reduce debt, improve financial stability, and set and reach financial goals; (iii) helping Prospective Homebuyers to improve credit scores by understanding the relationship between credit histories and credit scores; and (iv) educating Prospective Homebuyers about the options available to build savings for short- and long-term goals.

The purpose of the FEC Pilot Program is to identify successful methods resulting in positive behavioral change for financial empowerment, and to establish program models for organizations to carry out effective Financial Education and Counseling Services to prospective homebuyers. The CDFI Fund may make up to five awards of $400,000 each. The CDFI Fund released the Notice of Funding Availability (NOFA) for this program on October 13, 2009, and intends to make award determinations in the second quarter of FY 2010.

Recovery Act 2009

NACA Financial Assistance

In February 2009, the CDFI Fund received $8 million in Appropriations under the Recovery Act for the NACA Program. In order to disburse the funding as quickly and efficiently as possible into the national economy, Recovery Act funding was used for awards made through the initial funding round.

The Recovery Act waived the matching funds requirement as well as the $5 million limit an awardee can receive in a 3-year period.

During FY 2009, the NACA Program considered 10 applicants requesting $8 million for Recovery Act funding. Awards were made to all the awardees for $8 million with awards capped at $730,000. Awards were made for FA as well as TA. Awards were announced on July 1st and fully disbursed within 60 days.

Status of Financial Management (Unaudited)

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 2009 financial statement audit, a summary of the financial management initiatives of the CDFI Fund during FY 2009, and a discussion of the CDFI Fund's financial position and results of operations during the past fiscal year.

Management Assurances

FY 2009 Statement of Assurance of
Achievement of Management Control Objectives

The Community Development Financial Institutions (CDFI) Fund is responsible for establishing and maintaining effective internal control over financial reporting and has made a conscientious effort in FY 2009 to meet the internal control requirements of the Federal Manager's 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 units under my purview are operating in accordance with the procedures and standards prescribed by Comptroller General and OMB guidelines.

The systems of management control for the CDFI Fund under my purview are designed to ensure:

- Programs achieve their intended results;
- Resources used are consistent with our overall mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed;
- Controls are sufficient to minimize any improper or erroneous payments;
- Performance information is reliable;
- Systems security is in substantial compliance with all relevant requirements;
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
- 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 our office during FY 2009. Specifically, this assurance is provided with reference to Sections 2 and 4 of FMFIA. I further assure our financial management systems are in substantial compliance with requirements imposed by FFMIA.

The analytical basis for this assurance statement is the overall results from the testing and assessment of internal controls over financial reporting which resulted from completion of the "Department of the Treasury, FY 2009 Guidance and Implementation Plan, Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, Appendix A, Internal Control Over Financial Reporting" (March 5, 2009).

In addition, my assurance is based on our assessment of management controls, including existing policies and procedures, knowledge gained through day-to-day management activities, the review of various management information reports attendant to those activities, reports and reviews by internal and external auditors, our annual review performed pursuant to the Improper Payments Information Act, and our own understanding of the requirements imposed by both FMFIA and FFMIA.

The Bureau of Public Debt's (BPD) Administrative Resource Center provides full financial services to the CDFI Fund. As a result of its involvement in the financial reporting process, ARC provides reasonable assurance based on the Independent Service Auditor's Report completed by KPMG dated August 27, 2009. In addition, the Treasury Office of Financial Management (OFM) has reviewed and concurred with BPD's assurance level.

The following are findings made by KPMG in the course of their audit of the CDFI Fund's FY 2009 financial statements, and the CDFI Fund's management responses:

1. KPMG found that the CDFI Fund does not have the necessary processes to track and reconcile actual to expected loan principal and interest activities, including the effects of renegotiation and re-scheduling of such payments. The CDFI Fund concluded that most of the CDFI Program loan awardees are performing as required and are serving their target communities by expanding the availability of credit and investment capital in distressed urban and rural communities. However, management agrees that the recommendations suggested by KPMG will improve the CDFI Fund's ability to estimate the allowance for loan loss, as well as determine the impact of loan restructuring.

As of June 2009, the CDFI Fund has implemented an analysis process that includes a loan-by-loan review using key financial ratios from the awardees' most recent audited financial statements. This analysis will result in a specific dollar estimate of allowance necessary for FY 2009 rather than the 25% blanket allowance used in prior years, thus complying with Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) 310-10-35. This analysis will continue into future years.

The CDFI Fund will work with OFM and BPD to develop a loan subledger system by March 31, 2010. The CDFI Fund will coordinate with OFM and BPD to implement procedures to use this subledger system to evaluate, reconcile payments, identify past-due/delinquent loans, and categorize them into risk categories. The CDFI Fund projects that we will record most of our loan portfolio in the subledger system by June 30, 2010 and all by September 30, 2010.

These procedures will result in additional data to be used in conjunction with the loan analysis described above, thus further improving the process the CDFI Fund implemented in June 2009

2. KPMG found that the CDFI Fund did not have policies and procedures in place to ensure investments that were written off were communicated to the Administrative Resource Center of the Bureau of the Public Debt (ARC-BPD) in a timely manner. The Fund also does not have a process to regularly assess how changes in operations or circumstances may require modification to or development of specific articulated policies and procedures.

The CDFI Fund concurred with the recommendations. As of September 30, 2009 the CDFI Fund has adjusted the accounting treatment for investments. Investments are currently appropriately recognized, valued and have been evaluated for potential other-than-temporary impairments based on investment type. The CDFI Fund will continue the appropriate accounting treatment going forward and will develop formal policies and procedures by January 31, 2010 to ensure the CDFI Fund, BPD-ARC, and OFM are aware of the appropriate investment methodology and practices.

Starting in FY 2010, the CDFI Fund will notify BPD-ARC of any changes to the investments status (amendment, redemption) so that BPD-ARC can update the investment schedule it maintains. The requirement for notification to BPD-ARC of approved changes to the investments and/or investees will be included in the award amendment policies and procedures under development. In addition, the CDFI Fund will review the investment schedule provided and maintain by BPD–ARC on a monthly basis.

3. KPMG found that significant events or transactions could occur and not be properly presented or disclosed in the annual financial statements.

The CDFI Fund concurs with the finding. The Fund will review its current policies and procedures and work with the Office of Financial Management (OFM) and the Bureau of Public Debt (BPD) to establish additional policy and procedures, where necessary, to ensure all events and transactions that occur throughout the year are appropriately presented or disclosed in the financial statements. The Fund also will ensure that training is provided to the appropriate personnel to facilitate better understanding and application of generally accepted accounting principles in accordance with FASB.

Donna J. Gambrell
Director

Description of the CDFI Fund's Financial Management System

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

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

Results of FY 2009 Financial Statement Audit

The FY 2009 audit of the CDFI Fund's financial statements resulted in an unqualified opinion with the following three significant deficiencies: 1. Improvements are needed in the accounting process for estimating loan loss reserves; 2. Improvements are needed in the accounting for investments; and 3. Improvements are needed in the preparation and review of the financial statements. The CDFI Fund Management concurred with these deficiencies and responses are included in Exhibit II of the Auditor's report. No material weaknesses were identified.

FY 2009 Financial Management Initiatives

In FY 2009, 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 FY 2009, CIIS was used by 517 CDFIs and 193 CDEs to report institutional level data for 2008 activity (with 31 organizations reporting in both categories). Through FY 2009, a cumulative total of 355 organizations submitted the transactional level details on over 152,000 distinct portfolios of loans and equity investments for 2008 activity. This is a 79 percent increase in the total number of transactions reported in the previous year, where there were close to 85,000 transactions cumulative through FY 2008.

In the past year, the CDFI Fund has used the CIIS data to analyze the characteristics of CDFIs (including their loan and investment portfolios, capital under management, operating revenues, and overall financial strength) and assess the impact CDFIs are having in the communities they serve. The 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 2009 marks the third time that the CDFI Fund made the CIIS data available to the public (within the parameters of all applicable Federal information protection, privacy and confidentiality laws). The CDFI Fund provided public-use CIIS data and financial support to twelve independent research teams as part of its CDFI Research Initiative.

Much of the performance information in The Community Development Financial Institutions Program section of the Discussion and Analysis section was provided through 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 percent of their electronic program applications to the Grants.gov system administered by the Department of Health and Human Services. During FY 2009, the CDFI Fund posted all of its applications to Grants.gov, meeting this goal.

The CDFI Fund realized cost savings associated with the intake and processing of all grant applications. During FY 2009, 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 require that all federal grant making agencies migrate their electronic grant processing systems to one of three federally selected Centers of Excellence (CoE). This initiative is known as the "Grants Management Line of Business" (GMLoB). The process requires each organization to execute a Memorandum of Understanding (MoU) with a CoE that best matches the high-level business requirements of the organization, and to perform a formal Fit-Gap analysis to determine the feasibility of migrating the organization's grants management systems to that of the CoE.

In response with the above directives, the CDFI Fund partnered with other grant programs within the U.S. Department of the Treasury (i.e., three IRS programs: Low Income Taxpayer Clinic, Tax Counseling for Elderly, and Volunteer Income Tax Assistance Program) to observe cost savings and avoid duplication of efforts in addressing the GMLoB requirements. The CDFI Fund and the IRS executed a joint MoU with the Department of Health and Human Services (HHS) Administration for Children and Families (ACF) in the second quarter FY 2009. HHS/ACF performed a detailed fit-gap analysis of both CDFI Fund and IRS grant programs and found good fit with the IRS programs; however, the fit-gap study identified "Significant Gaps" between the CoE's current capabilities and a number of CDFI Fund's key business processes. In particular, the HHS/ACF could not meet any of the "Certification" and "Compliance" requirements that CDFI Fund is mandated to perform (12 U.S.C. 4701 et seq.). Therefore, the CDFI Fund is currently pursuing its option to obtain a waiver from OMB and to identify Commercial Off the Shelf (COTS) products that can meet its grants management needs. When this initiative is completed, it is anticipated that there will be a substantial cost savings and improved efficiency to the CDFI Fund pertaining to the processing of grant applications.

Federal Funding Accountability and Transparency Act

The Federal Funding Accountability and Transparency Act of 2006 requires that all grant making agencies fully disclose all organizations that receive federal funds. This information will be reported to the public on a website maintained by the Office of Management and Budget. The CDFI Fund submitted FY 2009 data directly to USASpend.gov.

Management Responsibilities

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

Limitations of the Financial Statements

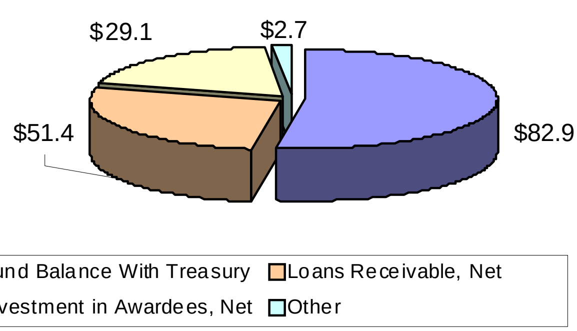
The financial statements report the financial position and results of operations of the CDFI Fund for the fiscal years ending in September 30, 2009 and 2008, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the CDFI Fund in conformity with accounting principles generally accepted in the United States of America, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Analysis of Financial Position and Results of Operations

Summarized Financial Data
(amounts in millions)

	FY 2009	FY 2008	Increase / (Decrease)
Assets	$166.1	$172.0	($5.9)
Liabilities	$49.7	$63.4	($13.7)
Net Position	$116.4	$108.5	$7.9
Revenue and Financing Sources	$197.9	$72.2	$125.7
Expenses	$200.4	$72.7	$127.7
Net Loss	($2.5)	($0.5)	($2.0)

Allocation of Fund Assets
September 30, 2009
(amounts in millions)



Assets
Assets decreased by $5.9 million during the year, consisting primarily of a decrease in the Fund Balance with Treasury which includes appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments.

Fund Balance with Treasury
The Fund Balance with Treasury reflected a specific change from the prior year, due to a decrease in Fund balance of $7.5 million of appropriations for FY 2008 to FY 2009. As a result, the CDFI Fund has decreased the amount of awards issued during the current year from the CDFI Fund; however, this amount was partially offset by the American Recovery and Reinvestment Act of 2009.

Loans Receivable
Loans receivable are increased when loan awards (under the CDFI and NACA programs) are disbursed by the CDFI Fund and decreased for loan repayments and loan write-downs. During FY 2009, net loans increased by $5.5 million, resulting from repayments of $3.6 million and offset by additional loans disbursed during the year of $3.5 million. The allowance for loan losses decreased by $5.9 million. The effect of these transactions resulted in a net increase in loans receivable of $5.5 million.

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

- Non-voting equity securities - $23 million
- Convertible subordinated debt - $0.28 million
- Limited partnerships - $1.6 million
- Secondary Capital - $4 million
- Certificates of Deposit - $0.25 million

The primary source of financial data used for the majority of assessments is the most recent audited financial statements of the investees. These assessments determine whether any other items, or temporary impairments should be recognized.

Liabilities
The decrease in liabilities during the year of $13.7 million consisted of a decrease in awards payable of $12.9 million and an increase in other liabilities by $0.7 million, offset by a decrease in debt of $0.8 million.

Awards Payable

Awards payable consists primarily of undisbursed BEA Program 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 $7.9 million at the end of the FY 2009. This decrease occurred for two reasons: 1) the CDFI Fund's annual budget appropriation for the BEA Program peaked in FY 2001 with a $46 million appropriation, decreasing to $21.7 million in FY 2009, so there was a smaller amount of BEA Program awards to make each year, and 2) the CDFI Fund has been able to disburse a significant amount of BEA awards over each of the past several years, since there is no matching funds requirement for BEA awardees.

Debt

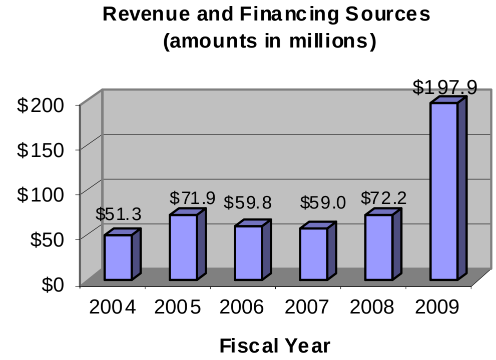
The decrease in debt of $0.8 million relates to repayments of amounts borrowed from Treasury to fund loans to awardees. Principal repayments collected from awardee loans during the year are used to repay the Treasury borrowings, and therefore amounts collected and repaid to Treasury each year will vary from year to year, as they are a function of awardee loan terms.

Net Position

Net position increased during the year by $7.9 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled, rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the CDFI Fund's subsidy reestimate, and 3) the excess (or shortage) of revenue and financing sources over (under) expenses. During FY 2009, appropriations received (net of amounts cancelled and rescinded) were $207 million, and appropriated capital used was $195.7 million. This difference of $11.3 million increases net position.

Revenue and Financing Sources, Expenses, and Net Loss

Revenue and Financing Sources



The primary source of revenue and financing sources for the CDFI Fund is the annual appropriation used to fund expenses ("appropriated capital used" as reflected in the statement of operations). Pursuant to Federal grant accounting requirements, the amount of appropriated funds recognized as revenue is, with certain adjustments, equal to the amount of operating expenses for the year. Operating expenses for the year excluding those paid for by others were $195.3 million. An explanation for the $125.8 million increase in operating expenses from FY 2008 to FY 2009 is associated with the American Recovery and Reinvestment Act of 2009 and is discussed in the *Expenses* section below.

Expenses

The change in the CDFI Fund's operating expenses during FY 2009 and FY 2008 consisted of the following:

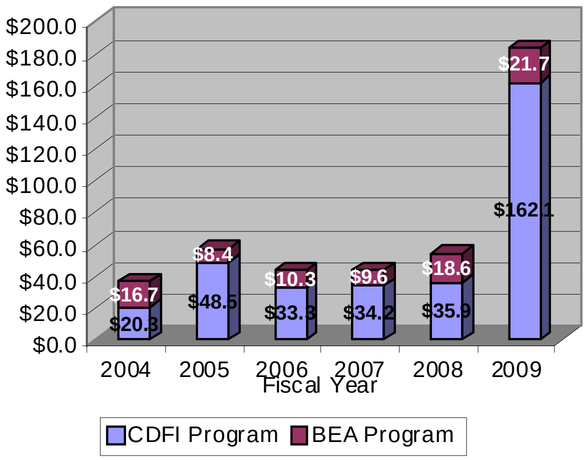
Comparison of Operating Expenses
Fiscal Years 2009 and 2008
(amounts in millions)

	FY 2009	FY 2008	Difference
Award Expenses	$183.8	$54.5	$129.3
Administrative Expenses	$17.4	$15.2	$2.2
Bad Debt Expense	($5.9)	($0.4)	($5.5)
Total Operating Expenses	$195.3	$69.3	$126.0

Award Expenses

The award expenses during the year increased $129.3 million due to an increase in the annual appropriations for FY 2008 to FY 2009 and due to an additional $98 million for the American Recovery and Reinvestment Act of 2009.

Award Expenses
(amounts in millions)



Administrative Expenses

FY 2009 administrative expenses were $2.0 million more than the prior year. The main reason for this increase was the increase in personnel costs during FY 2009.

Bad Debt Expense

Bad debt expense is a function of the amount of loans receivable at year-end. As of June 2009, the CDFI Fund implemented an analysis process that includes a loan-by-loan review using key financial ratios from the awardees' most recent audited financial statements. This analysis results in a specific dollar estimate of allowance necessary for FY 2009 rather than the 25% blanket allowance used in prior years, thus complying with FASB ASC 310-10-35. Loans receivable increased during FY 2009 by $5.5 million, resulting in a decrease to the allowance for bad debts of $5.9 million (the amount of the allowance for bad debts is a function of the loan receivable balance).

Net Loss

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

For FY 2009, expenses not covered by budgetary resources totaled $2.1 million, consisting of interest expense on Treasury borrowings.

Revenue and financial sources other than appropriated capital used and imputed financing sources totaled $1.5 million consisting of interest and dividend

Independent Auditors' Reports

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury

Director
Community Development Financial Institutions Fund

We have audited the accompanying statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2009 and 2008, and the related statements of operations and changes in net position, and cash flows (hereinafter referred to as "Financial Statements") for the year ended September 30, 2009. These Financial Statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these Financial Statements based on our audits. We were not engaged to audit the accompanying statements of operations and changes in net position, and cash flows for the year ended September 30, 2008 and, therefore, we do not express an opinion on those financial statements.

We conducted our audits 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*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the Financial Statements are 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Community Development Financial Institutions Fund as of September 30, 2009 and 2008, and the results of its operations and cash flows for the year ended September 30, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 3 to the Financial Statements, the Fund adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures,* effective October 1, 2008.

The information in the Community Development Financial Institutions Fund Overview, Program Discussion and Analysis, and Status of Financial Management sections is presented for purposes of additional analysis and is not required as 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.

However, we did not audit this information and, accordingly, we express no opinion on it. Certain information presented in the Community Development Financial Institutions Fund Overview, Program Discussion and Analysis, and Status of Financial Management sections is based on the fiscal year 2008 statements of operations and changes in net position, and cash flows that we were not engaged to audit.

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 10, 2009, 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 10, 2009

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

Director
Community Development Financial Institutions Fund

We have audited the statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2009 and 2008, and the related statements of operations and changes in net position, and cash flows (hereinafter referred to as "Financial Statements") for the year ended September 30, 2009, and have issued our report thereon dated November 10, 2009. We were not engaged to audit the statements of operations and changes in net position, and cash flows for the year ended September 30, 2008, and, therefore, we did not express an opinion on those financial statements. As discussed in Note 3 to the Financial Statements, the Fund adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures,* effective October 1, 2008.

We conducted our audits 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*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

The management of the Fund is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2009 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 Financial Statements. 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 was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, that are described in Exhibit I. Exhibit III presents the status of prior year significant deficiencies.

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

We noted one additional matter that we have reported to management of the Fund in a separate letter dated November 10, 2009.

This report is intended solely for the information and use of the Fund's management, the 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 10, 2009

Exhibit I

Community Development Financial Institution Fund

Significant Deficiencies and Recommendations

Improvements are needed in the accounting process for estimating loan loss reserves

The Community Development Financial Institutions Fund (the Fund) did not have the necessary processes to track and reconcile actual to expected loan principal and interest activities, including the effects of renegotiations and rescheduling of such payments. Further, the policies and procedures to recognize the allowance for loan losses had not been revisited and revised to consider changing circumstances. The Fund historically used a default allowance rate of 25%, which was originally negotiated by the Office of Management and Budget with the Fund to be used if adequate historical information was not available. During the majority of fiscal year 2009, the Fund continued to use this rate even though some payment history is now available.

In addition, management had not evaluated the collection history of the Fund's loans to determine the potential impact on the allowance for loan losses nor had it performed any other analyses to determine if any loans were impaired.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 310-10-35 states, "Subtopic 450-20 requires recognition of a loss when both of the following conditions are met: a) Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that it is probable that an asset has been impaired at the date of the financial statements, and b) The amount of the loss can be reasonably estimated. Losses from uncollectible receivables shall be accrued when both of the preceding conditions are met. Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables. If the conditions are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable."

FASB ASC Section 310-10-35 also states, "When a loan is impaired…, a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan." It further states, "If the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a creditor shall recognize an impairment by creating a valuation allowance with a corresponding charge to bad-debt expense or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to bad-debt expense."

Initial loan set up details were shared with the Bureau of Public Debt (BPD); however management does not reconcile expected payments to the actual payments processed and reported by BPD. Further, management had not considered the need to re-evaluate its accounting policies and procedures for analyzing its allowance for loan losses. In addition, management had not fully implemented FASB ASC Section 310-10-35, particularly the aspects of impairment recognition and computation.

As a result of the deficiencies noted above, management was not able to accurately determine the impact of loan restructuring on the related loan balances and interest income. Nor was management able to reasonably estimate its allowance for loan losses in accordance with U.S. generally accepted accounting principles. We did note that management began revising its process for evaluating the allowance for loan losses and was able to calculate a reasonable estimate for its September 30, 2009 financial statements.

***Recommendations*:**

We recommend that management develop a loan sub-ledger system and implement revised policies and procedures for estimating the allowance for loan losses. Specifically, management should perform the following:

1. Develop a mechanism (procedures and systems) to capture the contractual terms and scheduled expected payments of Fund loans and to enable the evaluation and reconciliation of the actual payments received.

2. Use the system above to perform analyses of the loan portfolio and payment history to regularly identify past due and delinquent loans that need to be evaluated for collectibility by categorizing them into risk categories.

3. Perform periodic assessments of the collectibility of loans and make appropriate adjustments to the allowance as necessary, in accordance with U.S. generally accepted accounted principles.

Improvements are needed in the accounting for investments

During our fiscal year 2009 testing of investments, we noted certain deficiencies in the Fund's accounting for investments. Specifically, we noted the following:

- The Fund had investment interests of 9% or more in four limited partnerships/limited liability companies that were incorrectly accounted for at impaired cost instead of the equity method as required by U.S. generally accepted accounting principles.

- One debt security and six secondary capital investments had zero or below market interest rates; however, the Fund had not recorded appropriate discounts and recognized imputed interest for them.

- The supporting documentation related to the valuation analysis for certain investments needs improvement. For instance, an analysis for one investment indicated that under one valuation method the carrying values exceeded the estimated fair value by approximately $250,000. Under another estimation method, the capitalized cash flow method, there was no indicated excess of carrying value over fair value. While management's analyses did acknowledge certain qualitative and quantitative factors in support of the carried value (e.g. trends in recent operating performance), the analyses did not adequately extend the documentation to key aspects of their methodology (e.g. the selected capitalization rate in the capitalized cash flow evaluations performed for all of its investments was unsupported).

- We noted several instances where the Fund wrote down an impaired investment to its "approximate fair value" instead of the fair value that was calculated using the aforementioned methods.

- The Fund wrote off an investment in January 2009; however, this transaction was not recorded in the general ledger until August 2009.

The Fund was able to correct the deficiencies identified above by year-end.

Exhibit I

FASB ASC Section 323-30-35 states, “Investors in unincorporated entities such as partnerships and other unincorporated joint ventures generally shall account for their investments using the equity method of accounting…if the investor has the ability to exercise significant influence over the investee.” It further states, “An investment in a limited liability company that maintains a specific ownership account for each investor—similar to a partnership capital account structure—shall be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in a limited liability company shall be accounted for using the cost method or the equity method.”

FASB ASC Section 323-30-S99 states, “That guidance requires the use of the equity method unless the investor's interest ‘is so minor that the limited partner may have virtually no influence over partnership operating and financial policies.’ The SEC staff understands that practice generally has viewed investments of more than 3 to 5 percent to be more than minor.”

FASB ASC Section 335-30-25 states: “When notes are traded in an open market, the market rate of interest and market value of the notes provide the evidence of the present value. These methods are preferable means of establishing the present value of the note. If an established exchange price is not determinable and if the note has no ready market, the problem of determining present value is more difficult. To estimate the present value of a note under such circumstances, an applicable interest rate is approximated that may differ from the stated or coupon rate. This process of approximation is called imputation, and the resulting rate is called an imputed interest rate. Nonrecognition of an apparently small difference between the stated rate of interest and the applicable current rate may have a material effect on the financial statements if the face amount of the note is large and its term is relatively long.”

FASB ASC Section 320-35-31 states, “An investment is impaired if the fair value of the investment is less than its cost.”

The U.S. Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)* states: “Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.” It also states, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.”

The Fund did not have a process to regularly assess and document how changes in operations or circumstances may require modification to or development of specific articulated policies and procedures. Such documentation would describe the accounting models (i.e. recognition, measurement and impairment) for the variety of investments that the Fund currently holds and will hold in the future.

The Fund also did not have policies and procedures in place to ensure investments that were written off were communicated to the Administrative Resource Center of the Bureau of the Public Debt (ARC-BPD) in a timely manner. The ARC-BPD is responsible for entering transactions into the Fund’s general ledger.

Due to the deficiencies noted above, certain investments of the fund were not accounted for in compliance with U.S. generally accepted accounting principles. In addition, without effective policies and procedures in place, there is an increased risk of material misstatements to the financial statements and related disclosures.

***Recommendations*:**

We recommend that management of the Fund perform the following:

1. Develop and implement robust formal policies and procedures to ensure that all investment types are appropriately recognized, valued and evaluated for potential other-than-temporary impairment based on the type of investment; and that all transactions approved by management are properly communicated to the ARC-BPD in a timely manner.

2. Periodically reconcile the detailed investment schedule maintained by ARC-BDP to its investment program files to ensure that all approved transactions have been recorded. The detailed investment schedule should then be reconciled to the general ledger.

Improvements are needed in the preparation and review of the financial statements

During all of fiscal year 2009, the Fund did not have sufficiently thorough financial reporting procedures (including planning and scoping consideration of new/different business transactions that may, or in fact did, require new or different measurement and disclosure). U.S. generally accepted accounting principles (GAAP) are dynamic to address today's constantly evolving business environment. In the recent past, it has become more critical for management to develop processes that will assist them in identifying and implementing new accounting standards or identifying the appropriate GAAP for new business conditions.

FASB ASC Section 235-10-50-1 states, "Information about the accounting policies adopted by an entity is essential for financial statement users. When financial statements that are issued or are available to be issued to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles (GAAP), a description of all significant accounting policies of the entity shall be included as an integral part of the financial statements. In circumstances where it may be appropriate to issue one or more of the basic financial statements without the others, purporting to present fairly the information given in accordance with GAAP, statements so presented also shall include disclosure of the pertinent accounting policies."

FASB Section ASC 235-10-50-3 states, "Disclosure of accounting policies shall identify and describe the accounting principles followed by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations."

The Fund's management conducted a review process with respect to financial statement disclosures involving personnel within the financial reporting group and certain senior staff that was retrospective and thus, by nature, reactive. While this type of review may be effective in the identification of certain types of errors, those reviewers lacking a strong knowledge of GAAP and/or are without a 'business understanding' of the transactions may fail to detect omissions or misstatements. Further, as such a review was largely retrospective, it compressed the time for thorough analysis into the short period that elapsed between the fiscal year end and the financial statement delivery date.

Due to the deficiency in the financial reporting process, several items in the Fund's initial year-end financial statements were improperly presented and/or disclosed. In addition, certain required disclosures related to policies and procedures of the Fund were not included in the notes to the financial statements. Management was able to correct the errors/omissions in their final September 30, 2009 financial statements.

Exhibit I

***Recommendations*:**

We recommend that management of the Fund perform the following:

1. Develop and implement comprehensive policies and procedures to ensure that all events and transactions that occur throughout the year are appropriately presented or disclosed in the financial statement.

2. Provide training to the appropriate personnel to facilitate better understanding and application of U.S. generally accepted accounting principles in accordance with FASB.

Exhibit II

Community Development Financial Institution Fund

Management's Response to Significant Deficiencies and Recommendations

Improvements are needed in the accounting process for estimating loan loss reserves

Management's Response:

The CDFI Fund concurs with this finding. The CDFI Fund concluded that most of the loan awardees are performing as required and are serving their communities by expanding the availability of credit, investment capital in distressed urban and rural communities. However, management agrees the recommendations suggested by KPMG will improve the CDFI Fund's ability to estimate the allowance for loan loss as well as determining the impact of loan restructuring.

In June 2009, the CDFI Fund began implementing an analysis process that included a loan-by-loan review using key financial ratios from the awardees' most recent audited financial statements. This analysis resulted in a specific dollar estimate of allowance necessary for FY 2009 rather than the 25% blanket allowance used in prior years, thus complying with FASB ASC 310-10-35. This analysis will continue into future years.

The CDFI Fund will work with the Office of Financial Management (OFM) and the Bureau of Public Debt (BPD) to develop a loan subledger system by March 31, 2010. The CDFI Fund will coordinate with OFM and BPD to implement procedures to use this subledger system to evaluate, reconcile payments, identify past-due/delinquent loans, and categorize them into risk categories. The CDFI Fund estimates that 75% of its loan portfolio will be recorded in the subledger system by June 30, 2010.

These procedures will result in additional data to be used in conjunction with the loan analysis described above, thus further improving the process the CDFI Fund began implementing in June 2009.

Improvements are needed in the accounting for investments

Management's Response:

The CDFI Fund concurs with recommendation number one. As of September 30, 2009 the CDFI Fund has adjusted the accounting treatment for investments. Investments are currently appropriately recognized, valued and have been evaluated for potential other-than-temporary impairments based on investment type. The CDFI Fund will continue the appropriate accounting treatment going forward and will develop formal policies and procedures by January 31, 2010 to ensure the CDFI Fund, BPD-ARC, and OFM are aware of the appropriate investment methodology and practices.

The CDFI Fund concurs with recommendation number two. Changes to investment awards occur very infrequently. Starting in FY 2010, the CDFI Fund will notify BPD-ARC of any changes to the investments status (amendment, redemption) so that BPD-ARC can update the investment schedule it maintains. The requirement for notification to BPD-ARC of approved changes to the investments and/or investees will be included in the award amendment policies and procedures under development. In addition, the CDFI Fund will review the investment schedule provided and maintain by BPD–ARC on a monthly basis.

Exhibit II

Improvements are needed in the preparation and review of the financial statements

Management's Response:

The CDFI Fund concurs with recommendation number one. The CDFI Fund will review its current policies and procedures and work with OFM and BPD to establish additional policies and procedures, where necessary, to ensure all potential events and transactions that could occur throughout the year are appropriately presented or disclosed in the financial statements.

The CDFI Fund concurs with recommendation number two. The CDFI Fund will ensure that additional training is provided to the appropriate personnel to facilitate better understanding and application of generally accepted accounting principles in accordance with FASB.

Exhibit III

Community Development Financial Institution Fund

Status of Prior Year Findings

Fiscal Year 2008 Finding	Deficiency Type	Fiscal Year 2009 Status
1) Improvements needed in management communication	Significant Deficiency	Closed
2) Improvements needed in controls over awards monitoring	Significant Deficiency	Closed

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

Director
Community Development Financial Institutions Fund

We have audited the statements of financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (the Fund) as of September 30, 2009 and 2008, and the related statements of operations and changes in net position, and cash flows (hereinafter referred to as "Financial Statements") for the year ended September 30, 2009, and have issued our report thereon dated November 10, 2009. We were not engaged to audit the statements of operations and changes in net position, and cash flows for the year ended September 30, 2008, and therefore, we did not express an opinion on those financial statements. As discussed in Note 3 to the Financial Statements, the Fund adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, effective October 1, 2008.

We conducted our audits 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*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are 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 Financial Statements are free of material misstatement, we performed tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Fund. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported 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 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 10, 2009

Financial Statements and Notes

Community Development Financial Institutions Fund
Statements of Financial Position
As of September 30, 2009 and 2008

		2009	2008
Assets			
Fund Balance with Treasury (Note 4)	$	82,943,254	90,410,166
Advances and prepayments		930,210	749,272
Loans receivable, net of allowance for bad debts of $9,282,169 in 2009 and $15,278,741 in 2008 (Note 5)		51,375,835	45,836,224
Investments, amortized cost (Note 6)		4,505,000	6,800,000
Investments, equity and cost method (Notes 8 and 9)		24,616,582	25,921,582
Interest receivable		379,340	339,022
Internal-use software, net of accumulated amortization of $3,492,293 in 2009 and $2,884,379 in 2008		1,048,058	1,482,874
Internal-use software in development		352,517	436,050
Total assets	$	166,150,796	171,975,190
Liabilities and Net Position			
Accounts payable	$	334,113	536,479
Awards payable		7,909,214	20,800,195
Accrued payroll		381,966	317,927
Accrued annual leave		473,422	377,724
Debt (Note 10)		40,638,011	41,402,862
Total liabilities		49,736,726	63,435,187
Commitments (Note 11)			
Unexpended appropriations (Note 12)		91,546,608	81,220,327
Cumulative results of operations		24,867,462	27,319,676
Total net position		116,414,070	108,540,003
Total liabilities and net position	$	166,150,796	171,975,190

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, 2009 and 2008

		2009	(Unaudited) 2008
Revenue and other income:			
Appropriations	$	195,711,732	69,790,071
Imputed other income - expenses paid by others (Note 13)		732,293	607,683
Interest, non-federal		1,235,417	1,240,463
Interest, federal		91,000	176,738
Dividends		205,072	349,042
Total revenue and other income		197,975,514	72,163,997
Expenses:			
CDFI grants		162,141,364	35,884,231
BEA grants		21,682,117	18,647,976
Administrative expense (Note 14)		16,632,431	14,615,331
Reversal of bad debt expense		(5,901,595)	(360,848)
Administrative expenses paid by others (Note 13)		732,293	607,683
Total operating expenses		195,286,610	69,394,373
Treasury borrowing interest		2,072,015	2,222,201
Impairment losses		2,519,103	839,776
Equity in loss of associates		550,000	250,000
Total expenses		200,427,728	72,706,350
Net loss (Note 15)	$	(2,452,214)	(542,353)
Cumulative results of operations, beginning of year	$	27,319,676	27,862,029
Net loss		(2,452,214)	(542,353)
Cumulative results of operations, end of year	$	24,867,462	27,319,676

The accompanying notes are an integral part of these statements

Community Development Financial Institutions Fund
Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	(Unaudited) 2008
Cash flows from operating activities:		
Net loss	$ (2,452,214)	(542,353)
Adjustments to reconcile net loss to net cash used in operations:		
Impairment losses	2,519,103	839,776
Equity in loss of associates	550,000	250,000
Amortization expense	607,914	623,893
Accretion of discount	(44,103)	-
Reversal of bad debt expense	(5,901,595)	(360,848)
Change in assets and liabilities:		
Decrease (increase) in advances and prepayments	(180,938)	31,778
Decrease (increase) in interest receivable	(40,318)	245,812
Decrease in other receivable	-	18,506
Increase (decrease) in accounts payable and accrued payroll	(138,327)	264,051
Increase (decrease) in awards payable	(12,890,981)	7,453,031
Increase in accrued annual leave	95,698	67,890
Net cash (used in)/provided by operating activities	(17,875,761)	8,891,536
Cash flows from investing activities:		
Proceeds from disposition of investments	675,000	425,000
Investments in awardees	(100,000)	-
Acquisition of internal-use software	(89,565)	(436,050)
Loans disbursed	(3,556,284)	(1,096,906)
Collection of loan principal	3,918,268	2,540,298
Net cash provided by investing activities	847,419	1,432,342
Cash flows from financing activities:		
Increase in unexpended appropriations, net	10,326,281	21,049,509
Borrowings from Treasury	2,814,895	2,864,834
Loan payments to Treasury	(3,579,746)	(3,363,822)
Net cash provided by financing activities	9,561,430	20,550,521
Net change in Fund balance with Treasury	(7,466,912)	30,874,399
Fund balance with Treasury, beginning of year	90,410,166	59,535,767
Fund balance with Treasury, end of year	$ 82,943,254	90,410,166

The accompanying notes are an integral part of these statements

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes to Financial Statements

September 30, 2009 and 2008

(1) Description of 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.

(2) The American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 ("the Recovery Act") appropriated an additional $100 million to the CDFI Fund for the fiscal year (FY) 2009 funding round to make awards through the CDFI Program and the Native American CDFI Assistance (NACA) Program. Of this amount, $90 million was made available to Community Development Financial Institutions (CDFIs) under the Financial Assistance (FA) Component of the CDFI Program, $8 million was made available under the NACA Program, and $2 million was used to fund administrative costs incurred by the CDFI Fund.

For all CDFI Program awards made under the FY 2009 funding round, regardless of the source of funds (i.e., the Recovery Act vs. standard annual appropriations), the Recovery Act waives: (1) the requirement that the awardee obtain matching funds from non-Federal sources; and (2) the general requirement that no single awardee (or its affiliates) can receive more than $5 million in assistance from the CDFI Fund over a 3-year period. This allows the CDFI Fund to make all of its CDFI Program awards for the FY 2009 round in the form of grants, while in prior award rounds the form of the award was based on the form of the matching funds.

The Recovery Act also authorizes the CDFI Fund to allocate an additional $3 billion in tax credit authority to qualified Community Development Entities (CDEs) under the NMTC Program, as follows: $1.5 billion (unaudited) to CDEs that applied for allocation authority under the 2008 NMTC allocation round; and $1.5 billion (unaudited) to CDEs that apply for allocation authority under the 2009 NMTC allocation round. This is not an amount subject to accounting and reporting by the Fund and is for informational purposes only.

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The American Institute of Certified Public Accountants (AICPA) has designated the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body for financial statements of federal governmental entities, with respect to the establishment of accounting principles generally accepted in the United States of America. SFFAS 34, issued by FASAB, provides authoritative guidance allowing federal entities to prepare financial statements in conformance with accounting and reporting principles issued by the Financial Accounting Standards Board (FASB). Accordingly, the Fund financial statements are presented in accordance with accounting standards published by FASB.

(b) Use of Estimates

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

(c) Fund Balance with Treasury

The 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) Loans Receivable, net of Allowance for Bad Debts

Loans receivable relate to direct loans made to certain CDFI Program awardees and are recorded at face value. Direct and incremental loan costs are deemed to be de minimis. Any interest is recognized over the life of the loan, when earned. Amounts collected on loans receivable are included in cash flows from investing activities in the statements of cash flows. During FY 2009, the CDFI Fund received requests from awardees requesting an extension of their maturity dates. As of September 30, 2009, the requests are being processed in collaboration with the Office of Management and Budget and the Department of the Treasury Office of Financial Management. While the loan extensions are being processed, awardees do not make principal payments. The Fund continues to collect interest on all loans that are delinquent, past maturity or when ultimate collectability is in doubt.

The allowance for bad debts is the Fund's best estimate of the amount of credit losses in the Fund's existing loans. The allowance includes both specific and non-specific loan analysis. The non-specific portion of the allowance considers historical write-off trends and current market conditions. The specific portion is determined on an individual basis upon review of any loan that has a past due balance or no payment required until maturity. A loan is considered impaired pursuant to FASB ASC-310-10-35. A loan is impaired if it is probable that the Fund will not collect all principal and interest contractually due. The impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The Fund has recorded the interest income when received on the impaired loans that have been submitted for loan modifications.

(e) Interest Receivable

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

(f) Investments

The Fund provides assistance to certain for-profit CDFI program awardees by purchasing various investments described below. The Fund is restricted from owning more than 50% of the equity of awardees and from controlling their operations. Held-to-maturity debt securities are those debt securities in which the Fund has the ability and intent to hold the security until maturity.

- Non-voting Equity Securities: These investments are carried at original cost subject to other-than-temporary impairments.
- Secondary Capital Interests: These interests are held-to-maturity and carried at

amortized cost subject to other-than-temporary impairments.

- Convertible Subordinated Debt: This instrument exhibits sufficient characteristics of an equity security as the Fund is entitled to any dividends in the non-voting common stock as if the Fund had converted the debentures into such stock prior to the declaration of the dividend. This investment is held-to-maturity and carried at amortized cost, net of applicable discounts, subject to other-than-temporary impairments.

- Limited Partnership Interests: These interests are carried in accordance with the equity method of accounting by recognizing the pro-rata share of investee profit/loss through the statement of operations. Investments are further subject to assessment of any other-than-temporary impairments as discussed below.

- Certificates of Deposits: These investments are held-to-maturity and recognized at cost as they are fully insured.

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

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

(g) Internal-Use Software

Internal-use software represents the completed phases of various software placed in service pertaining to 1) processing applications – this software automates the award application submission process; 2) geocoding – web-based software that geocodes addresses, census tracts and counties, and enables applicants to determine the funding eligibility of census tracts and counties under 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, 2009 and 2008 was $607,914 and $623,893 (unaudited), respectively.

(h) Internal-Use Software in Development

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

(i) Leases

At the beginning of each fiscal year the Fund obtains the estimated annual amount for all operating leases. The Fund then establishes an obligation to be recorded within the financial system for the full amount of the estimate. The Fund approves each monthly IPAC transaction and submits the approved form to BPD for processing on a monthly basis.

(j) 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).

(k) 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.

(l) 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.

(m) 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 and are due September 30 of each year of maturity.

(n) Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The Fund has employment related cases (e.g., discrimination, Equal Employment Opportunity Commission) in which a loss may be reasonably possible, but for which a range of potential loss could not be determined.

(o) Revenue and Other Income

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. Dividends are recognized when received.

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

(p) 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.

(q) Fair Value Measurements

On October 1, 2008 the Fund adopted the provisions of FASB ASC-820-10-05, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities. This standard defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements (Note 7).

(r) Reclassifications

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

4) Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2009 and 2008 consisted of the following components:

	2009	2008
Available	$ 11,442,084	$ 3,382,280
Obligated	70,230,550	85,664,264
Expired	1,270,620	1,363,622
	$ 82,943,254	$ 90,410,166

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

(5) Loans Receivable

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

	2009	(Unaudited) 2008
Balance as of beginning of year	$ 61,114,965	$ 62,558,357
Add: Loans disbursed	3,556,284	1,096,906
Less: Loan repayments	(3,918,268)	(2,540,298)
Less: Write off of loans	(94,977)	-
Allowance for bad debts	(9,282,169)	(15,278,741)
Loans receivable, net, as of end of year	$ 51,375,835	$ 45,836,224
The changes in the allowance for doubtful accounts consisted of the following:		
Balance as of beginning of year	$ (15,278,741)	$ (15,639,589)
Decrease in allowance credited to expense	5,901,595	360,848
Accounts credited against the allowance, net of redemptions	94,977	-
Balance as of end of year	$ (9,282,169)	$ (15,278,741)

Current loans receivable as of September 30, 2009 were $7,974,446 (net of allowance of $1,440,758). Long-term loans receivable as of September 30, 2009 was $43,401,389 (net of allowance of $7,841,411).

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).

Interest accrues on these loans in accordance with applicable awardee assistance agreements. Interest income for the years ended September 30, 2009 and 2008 was $1,235,417 and $1,240,463 (unaudited), respectively. Interest receivable for the years ended September 30, 2009 and 2008 was $379,340 and $339,022, respectively.

During the year ended September 30, 2009 the Fund had recorded investments of $3,073,114 in impaired loans and a $1,771,742 related allowance for bad debts. During this year the Fund recognized related interest income of $16,682 using a cash-basis method of accounting for these impaired loans.

(6) Investment Securities

The carrying amount, gross unrealized holding losses and fair value of held-to maturity debt securities by major security type at September 30, 2009 and 2008 are as follows:

	Aggregate Fair Value	Gross Unrealized Loss	Net Carrying Amount
Investments, Held to Maturity at September 30, 2009:			
Certificates of deposit	$ 250,000	$ -	$ 250,000
Convertible debt securities	280,000	-	280,000
Secondary capital securities	3,975,000	-	3,975,000
Total	$ 4,505,000	$ -	$ 4,505,000
Investments, Held to Maturity at September 30, 2008:			
Certificates of deposit	$ 175,000	$ -	$ 175,000
Convertible debt securities	2,000,000	-	2,000,000
Secondary capital securities	4,625,000	-	4,625,000
Total	$ 6,800,000	$ -	$ 6,800,000

Maturities of debt securities classified as held-to-maturity were as follows at September 30, 2009:

	Fair Value	Net Carrying Amount
Held to Maturity:		
Due within one year	$ 600,000	$ 600,000
Due after one through five years	3,425,000	3,425,000
Due after ten years	480,000	480,000
Total	$ 4,505,000	$ 4,505,000

The Fund evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based on this evaluation, the Fund recognized no other-than-temporary impairment losses of these investments in 2009 or 2008.

Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2009 and 2008, this category consists of 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.

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.

(7) Fair Value Measurements

(a) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Fund's financial instruments at September 30, 2009 and 2008. The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Fund Balance with Treasury	$ 82,943,254	$ 82,943,000	$ 90,410,166	$ 90,410,000
Loans receivable	51,375,835	33,858,000	45,836,224	32,764,000
Investments, amortized cost	4,505,000	4,505,000	6,800,000	5,080,000
Investments, cost method	21,274,820	25,963,000	22,029,820	26,311,000
Interest receivable	379,340	379,000	339,022	339,000
Financial liabilities:				
Awards payable	7,909,214	7,909,000	20,800,195	20,800,000
Debt	40,638,011	22,304,000	41,402,862	22,625,000

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

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

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

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

Certificates of deposit: The fair value of certificates of deposit is discounted cash flow at a market rate.

(b) Fair Value Hierarchy

On October 1, 2008 the Fund adopted the provisions of FASB ASC-820-10-05, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities. This standard defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows.

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

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

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

None of the Fund's investments are in publicly traded entities for which a share price can be readily obtained; accordingly, the Fund used Level 3 inputs to measure fair value of investments.

(8) Cost Method Investments

Investments accounted for under the cost method consist of non-voting common stock held in for-profit CDFI Program awardees and preferred non-voting stock held in two awardees. The aggregate amount of these investments is $21,274,820 and $22,029,820 at September 30, 2009 and 2008 respectively. All securities were evaluated for impairment. Two investments were written off during fiscal year 2009 totaling $525,000.

(9) Equity Method Investments

Investments accounted for under the equity method consist of a Class B limited partnership interest in Sustainable Jobs Fund, LP (12%), an interest in Pacific Community Ventures (9%), a non-voting redeemable transferable interest in BCLF Ventures II, LLC (18%) and three units of preferred interest in Shorebridge Capital LLC (17%). These totaled $3,341,762 and $3,891,762 at September 30, 2009 and 2008, respectively.

(10) Debt

Debt consists of amounts borrowed from the U.S. Treasury Department and included the following activity for the years ended September 30, 2009 and 2008:

	2009	(Unaudited) 2008
Beginning balance	$ 41,402,862	$ 41,901,850
New borrowings	2,814,895	2,864,834
Repayments	(3,579,746)	(3,363,822)
Ending balance	$ 40,638,011	$ 41,402,862

The payments to Treasury are due on September 30 of each year of maturity. Principal payments on this debt as of September 30, 2009 are as follows:

Fiscal Year	Principal Payments
2010	$ -
2011	-
2012	636,914
2013	658,895
2014	38,719,090
Later years, through 2037	$ 40,014,899

During fiscal year 2009, the Fund borrowed $2,325,810 to finance current year direct loan commitments and $489,085 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.

During fiscal year 2008, the Fund borrowed $2,590,737 (unaudited) to finance current year direct loan commitments and subsidy reestimates and $274,097 (unaudited) to meet annual interest payments due to the Treasury Department, at interest rates ranging from 3.55% (unaudited) to 6.77% (unaudited), depending on maturity dates or risk categories.

Interest paid in cash for the years ended September 30, 2009 and 2008 was $2,072,015 and $2,222,201 (unaudited), respectively.

(11) Commitments

(a) Operating Leases

The Fund leases office space from the General Services Administration in the Homer Building located in Washington, D.C. under the terms of an operating lease (renewed in FY 2007) which expires in January 2012. The Fund also leases equipment under the terms of an operating lease. The total operating lease expense was $1,485,251 and $1,283,464 (unaudited) for the years ended September 30, 2009 and 2008, respectively.

Future minimum payments due under these operating leases as of September 30, 2009 were as follows:

Fiscal Year		Minimum Lease Payments
2010	$	1,475,038
2011		1,479,885
2012		37,183
2013		37,183
2014		37,183
	$	3,066,472

(b) Award and Purchase Commitments

As of September 30, 2009 and 2008, award commitments amounted to $58,624,309 and $63,510,459 (unaudited), 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 $7,909,214 and $20,800,195 as of September 30, 2009 and 2008, respectively, are excluded from these amounts since they are reflected as liabilities on the Fund’s balance sheet.

Purchase commitments of $3,911,158 and $3,900,335 (unaudited) as of September 30, 2009 and 2008, respectively, relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

(12) Unexpended Appropriations

Unexpended appropriations for the years ended September 30, 2009 and 2008 were as follows:

	2009	(Unaudited) 2008
Beginning unexpended appropriations	$ 81,220,327	$ 60,170,818
Appropriations received	207,000,000	94,000,000
Appropriations for Subsidy Reestimate	—	1,078,368
Appropriations cancelled	(961,987)	(2,340,417)
Appropriations expended	(195,711,732)	(69,790,071)
Downward Reestimate Adjustment	—	(1,898,371)
Change in unexpended appropriations	10,326,281	21,049,509
Ending unexpended appropriations	$ 91,546,608	$ 81,220,327

(13) Imputed Financing

Imputed financing represents specific expenses relating to the Fund paid for by another Federal organization. The components of imputed financing for the years ended September 30, 2009 and 2008 are as follows:

	2009	(Unaudited) 2008
Pension Cost (CSRS Retirement Plan)	$ 82,351	$ 69,674
Pension Cost (FERS Retirement Plan)	14,454	—
Health Insurance (Health Benefits Program)	310,824	266,220
Life Insurance (Group Life Insurance Program)	952	908
Audit Fees	323,712	270,881
Total	$ 732,293	$ 607,683

(14) Administrative Expenses

Administrative expenses consist of the following for the years ended September 30, 2009 and 2008:

	2009	(Unaudited) 2008
Personnel compensation and benefits	$ 7,248,561	$ 6,973,567
Travel	221,162	321,673
Rent, communications, utilities and miscellaneous charges	2,636,858	1,496,774
Contractual services	5,372,395	4,857,380
Information technology systems maintenance	258,359	191,197
Amortization	607,914	623,893
Supplies and printing	191,385	82,253
Other	95,797	68,594
Total	$ 16,632,431	$ 14,615,331

(15) Net Loss

The net loss for fiscal year 2009 and 2008 includes $0 and $51,900 (unaudited), 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 net loss.

(16) Fair Values of Financial Instruments

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

For assets measured at fair value on a nonrecurring basis in 2009 that were still on the balance sheet at year end, the following table provides the level of valuation assumptions used and the carrying value of the related individual assets or portfolios at year end.

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total Loss**
Investments	$ —	$ —	$ 21,274,820	$ (755,000)
Total	$ —	$ —	$ 21,274,820	$ (755,000)

Investments with a carrying value of $22,029,820 were written down to their fair value of $21,274,820, resulting in an impairment loss of $755,000, which was included in earnings for the period.

(17) Related Party Transactions

During fiscal year 2009 the Fund awarded a grant for $89,530 to Pacific Community Ventures, with whom the Fund holds a limited interest.

The Fund has Interagency agreements with the Department of Treasury. As of September 30, 2009 these related party expenses amounted to $2,523,100.

Expenses were recorded as follows: Interagency Agreements with Treasury's Departmental Offices, Office of Financial Management (OFM) for Financial Management Services, Conference and Events; Postage; Human Resources Services, for the amount of $736,485. An Interagency Agreement with the Working Capital Fund shared IT services from the Office of the Chief Information Officer, for the amount of $1,108,202. An Interagency Agreement with the Bureau of Public Debt (BPD) for Accounting Services Application Intake Process, for the amount of $107,938. An Interagency Agreement with BPD for Accounting Services; eTravel; and website hosting, for the amount of $570,475.

Appendices (Unaudited)

Appendix A

FY 2009 CDFI

Fund Award and Allocation Activities

STATE	FA Awards #	FA Awards $	SECA/TA Only Awards (1) #	SECA/TA Only Awards (1) $		NI Awards #	NI Awards $	BEA Awards #	BEA Awards $	Total Awards #	Total Awards $	Allocation of New Markets Tax Credits #	Allocation of New Markets Tax Credits $
Alabama	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
Alaska	0	$0	0	$0		4	$868,661	-	$0	4	$868,661	1	$50,000,000
Arizona	1	$1,000,000	0	$0		6	$2,877,793	1	$700,000	8	$4,577,793	1	$25,000,000
Arkansas	0	$0	0	$0		-	$0	-	$0	-	$0	2	$125,000,000
California	10	$16,000,000	7	$1,972,539		2	$243,526	6	$3,426,252	25	$21,642,317	13	$513,000,000
Colorado	0	$0	1	$100,000		-	$0	-	$0	1	$100,000	4	$145,000,000
Connecticut	1	$910,000	0	$0		-	$0	1	$432,000	2	$1,342,000	1	$85,000,000
Delaware	0	$0	0	$0		-	$0	1	$700,000	1	$700,000	-	$0
District of Columbia	3	$3,000,000	2	$594,992		-	$0	1	$700,000	6	$4,294,992	5	$260,000,000
Florida	0	$0	0	$0		-	$0	1	$700,000	1	$700,000	2	$120,000,000
Georgia	1	$1,000,000	2	$850,000		-	$0	3	$604,282	6	$2,454,282	2	$120,000,000
Hawaii	0	$0	1	$100,000		3	$845,000	-	$0	4	$945,000	-	$0
Idaho	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
Illinois	3	$4,000,000	2	$194,582		-	$0	14	$6,732,686	19	$10,927,268	5	$265,000,000
Indiana	0	$0	0	$0		-	$0	-	$0	-	$0	1	$50,000,000
Iowa	0	$0	1	$500,000		-	$0	-	$0	1	$500,000	3	$215,000,000
Kansas	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
Kentucky	3	$5,000,000	1	$500,000		-	$0	7	$581,700	11	$6,081,700	1	$25,000,000
Louisiana	2	$4,000,000	0	$0		-	$0	1	$700,000	3	$4,700,000	5	$300,000,000
Maine	2	$3,000,000	0	$0		1	$877,550	-	$0	3	$3,877,550	1	$125,000,000
Maryland	0	$0	2	$195,288		-	$0	-	$0	2	$195,288	9	$350,000,000
Massachusetts	2	$3,000,000	5	$1,955,651		-	$0	1	$477,474	8	$5,433,125	4	$280,000,000
Michigan	2	$3,000,000	0	$0		3	$426,532	-	$0	5	$3,426,532	4	$178,000,000
Minnesota	5	$7,000,000	4	$1,700,000		3	$872,131	4	$1,932,807	16	$11,504,938	3	$180,000,000
Mississippi	0	$0	0	$0		-	$0	1	$14,580	1	$14,580	1	$20,000,000
Missouri	1	$1,000,000	0	$0		-	$0	1	$700,000	2	$1,700,000	7	$420,000,000
Montana	1	$2,000,000	2	$633,010		1	$119,739	-	$0	4	$2,752,749	-	$0
Nebraska	0	$0	1	$600,000		-	$0	-	$0	1	$600,000	-	$0
Nevada	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
New Hampshire	1	$2,000,000	0	$0		-	$0	-	$0	1	$2,000,000	-	$0
New Jersey	2	$3,000,000	1	$500,000		-	$0	1	$700,000	4	$4,200,000	1	$20,000,000
New Mexico	0	$0	2	$1,100,000		2	$620,000	-	$0	4	$1,720,000	-	$0
New York	13	$19,800,000	8	$3,222,761		1	$24,390	1	$700,000	23	$23,747,151	10	$695,000,000
North Carolina	2	$4,000,000	0	$0		2	$612,174	1	$72,000	5	$4,684,174	1	$30,000,000
North Dakota	0	$0	1	$600,000		1	$132,377	-	$0	2	$732,377	-	$0
Ohio	3	$2,500,000	1	$500,000		-	$0	-	$0	4	$3,000,000	8	$290,000,000
Oklahoma	1	$2,000,000	0	$0		2	$1,266,522	-	$0	3	$3,266,522	3	$85,000,000
Oregon	3	$5,000,000	0	$0		-	$0	1	$216,547	4	$5,216,547	3	$100,000,000
Pennsylvania	5	$9,000,000	5	$1,424,392		-	$0	1	$165,501	11	$10,589,893	3	$109,000,000
Puerto Rico	1	$1,000,000	3	$797,394		-	$0	-	$0	4	$1,797,394	2	$55,000,000
Rhode Island	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
South Carolina	0	$0	1	$600,000		1	$149,281	1	$71,726	3	$821,007	1	$60,000,000
South Dakota	1	$1,000,000	1	$95,932		6	$3,369,580	-	$0	8	$4,465,512	-	$0
Tennessee	1	$2,000,000	1	$27,500		-	$0	2	$706,593	4	$2,734,093	1	$30,000,000
Texas	4	$4,000,000	1	$500,000		1	$32,756	1	$104,864	7	$4,637,620	4	$185,000,000
Utah	0	$0	1	$500,000		-	$0	-	$0	1	$500,000	-	$0
U.S. Virgin Islands	0	$0	0	$0		-	$0	-	$0	-	$0	-	$0
Vermont	3	$6,000,000	0	$0		-	$0	-	$0	3	$6,000,000	1	$30,000,000
Virginia	2	$2,000,000	0	$0		-	$0	1	$53,739	3	$2,053,739	6	$415,000,000
Washington	2	$2,000,000	4	$754,876		3	$864,989	-	$0	9	$3,619,865	4	$125,000,000
West Virginia	0	$0	1	$600,000		-	$0	-	$0	1	$600,000	-	
Wisconsin	4	$3,750,000	0	$0		2	$735,381	2	$1,139,575	8	$5,624,956	8	$420,000,000
Wyoming	0	$0	0	$0		1	$860,002	-	$0	1	$860,002	-	$0
Amounts Awarded in FY 2009 Funding Round	**85**	**$122,960,000**	**62**	**$21,118,917**	**-**	**45**	**$15,798,384**	**55**	**$22,332,326**	**247**	**$182,209,627**	**131**	**$6,500,000,000**

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

Appendix B: Aggregate Awards

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	$1,914,741	$0	$10,133,241	$90,000,000
Arizona	$6,806,500	$491,867	$6,279,257	$1,509,288	$15,086,912	$300,000,000
Arkansas	$10,239,300	$605,647	$70,000	$5,075,223	$15,990,170	$140,000,000
California	$75,126,712	$5,442,833	$1,107,593	$43,512,493	$125,189,631	$2,112,000,000
Colorado	$9,631,300	$3,509,066	$270,000	$2,116,915	$15,527,281	$472,000,000
Connecticut	$3,793,500	$863,044	$0	$805,205	$5,461,749	$85,000,000
Delaware	$923,731	$122,000	$0	$3,451,000	$4,496,731	$50,000,000
District of Columbia	$17,803,342	$1,948,842	$0	$7,257,450	$27,009,634	$1,855,000,000
Florida	$17,823,800	$1,355,798	$0	$10,191,003	$29,370,601	$135,000,000
Georgia	$4,783,900	$1,585,281	$0	$7,390,146	$13,759,327	$504,000,000
Hawaii	$1,000,000	$907,825	$1,566,121	$1,069,199	$4,543,145	$28,000,000
Idaho	$3,534,300	$200,000	$0	$0	$3,734,300	$0
Illinois	$40,276,975	$2,653,117	$0	$48,310,163	$91,240,255	$801,300,000
Indiana	$2,308,000	$362,500	$0	$1,609,188	$4,279,688	$143,000,000
Iowa	$3,990,000	$765,050	$0	$508,500	$5,263,550	$474,700,000
Kansas	$1,903,000	$240,504	$25,000	$2,752,432	$4,920,936	$0
Kentucky	$23,906,525	$1,311,460	$0	$6,578,312	$31,796,297	$305,500,000
Louisiana	$10,655,603	$846,270	$0	$3,372,418	$14,874,291	$1,681,000,000
Maine	$15,058,856	$891,951	$3,366,418	$1,481,251	$20,798,476	$606,000,000
Maryland	$16,548,360	$1,053,524	$176,040	$2,330,221	$20,108,145	$1,448,000,000
Massachusetts	$22,823,200	$4,937,519	$0	$7,656,879	$35,417,598	$1,153,000,000
Michigan	$9,115,000	$527,404	$1,272,908	$1,232,686	$12,147,998	$280,000,000
Minnesota	$26,077,360	$3,445,615	$4,253,513	$7,574,807	$41,351,295	$1,008,000,000
Mississippi	$12,291,250	$323,376	$0	$2,544,437	$15,159,063	$70,000,000
Missouri	$2,310,109	$259,824	$0	$6,148,034	$8,717,967	$1,172,000,000
Montana	$4,537,145	$1,935,066	$1,184,279	$315,962	$7,972,452	$70,000,000
Nebraska	$350,000	$1,604,628	$265,000	$97,832	$2,317,460	$23,000,000
Nevada	$0	$581,452	$0	$339,200	$920,652	$0
New Hampshire	$11,565,000	$93,425	$0	$1,132,000	$12,790,425	$65,000,000
New Jersey	$14,226,064	$1,206,469	$0	$5,962,390	$21,394,923	$413,000,000
New Mexico	$9,313,011	$1,589,665	$907,699	$185,705	$11,996,080	$110,000,000
New York	$96,926,627	$10,830,431	$208,390	$52,220,326	$160,185,774	$3,429,250,000
North Carolina	$34,009,523	$2,457,205	$2,405,020	$28,766,498	$67,638,246	$830,000,000
North Dakota	$635,000	$669,520	$716,245	$15,000	$2,035,765	$0
Ohio	$11,719,620	$2,073,058	$0	$3,755,203	$17,547,881	$1,363,000,000
Oklahoma	$4,734,190	$599,550	$4,996,777	$2,401,680	$12,732,197	$400,000,000
Oregon	$10,051,250	$529,001	$122,561	$6,569,895	$17,272,707	$461,500,000
Pennsylvania	$47,699,971	$5,062,913	$0	$2,038,828	$54,801,712	$657,500,000
Puerto Rico	$1,300,000	$988,041	$0	$0	$2,288,041	$55,000,000
Rhode Island	$750,000	$389,900	$0	$0	$1,139,900	$0
South Carolina	$500,000	$992,338	$149,281	$2,211,905	$3,853,524	$349,000,000
South Dakota	$8,166,403	$677,932	$8,704,551	$722,250	$18,271,136	$130,000,000
Tennessee	$11,323,178	$177,600	$95,000	$5,025,766	$16,621,544	$65,250,000
Texas	$21,737,267	$4,827,209	$32,756	$15,247,856	$41,845,088	$247,000,000
Utah	$2,000,000	$892,500	$353,000	$120,000	$3,365,500	$100,000,000
U.S. Virgin Islands	$770,000	$0	$0	$0	$770,000	$0
Vermont	$15,570,549	$490,055	$0	$0	$16,060,604	$32,000,000
Virginia	$7,294,385	$1,523,076	$0	$76,739	$8,894,200	$711,000,000
Washington	$10,651,250	$1,836,815	$2,591,789	$3,080,991	$18,160,845	$280,000,000
West Virginia	$2,439,000	$931,768	$0	$0	$3,370,768	$4,000,000
Wisconsin	$15,206,986	$1,079,103	$2,309,724	$6,256,010	$24,851,823	$1,251,000,000
Wyoming	$0	$0	$2,124,366	$0	$2,124,366	$0
TOTALS	***$690,264,542***	***$79,470,537***	***$47,468,029***	***$311,634,361***	***$1,128,837,469***	***$26,000,000,000***

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

(2) Consists of New Markets Tax Credit (NMTC) allocatees headquarted in these states. Amounts shown represents amount of equity supported by tax credits. Amounts include FY2008 NMTC Supplemental and Appropriated rounds. FY2009 NMTC Awards have not been made as of 09/11/09.

Appendix C
GLOSSARY OF TERMS

ALLOCATION (OF TAX CREDITS)

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

BANK

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

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

BANK ENTERPRISE AWARD (BEA) PROGRAM

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

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

COMMUNITY DEVELOPMENT ENTITY (CDE)

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI)

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

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

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) CDFI FUND

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

COMMUNITY INVESTMENT IMPACT SYSTEM (CIIS)

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

EQUITY

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

CDFI FUNDING ROUND

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

NATIVE AMERICAN CDFI ASSISTANCE (NACA) PROGRAM

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

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

NATIVE AMERICAN CDFI DEVELOPMENT (NACD) PROGRAM

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

NATIVE AMERICAN TECHNICAL ASSISTANCE (NATA) COMPONENT

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

NEW MARKETS TAX CREDIT (NMTC) PROGRAM

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

QUALIFIED EQUITY INVESTMENT (QEI)

An investment in a CDE through the NMTC Program meeting the following criteria: the investment proceeds are used by the CDE to make Qualified Low-Income Community Investments (QLICIs), the CDE designates the investment as a

QEI, and the investment is made by the CDE within 5 years from the date of its NMTC allocation.

QUALIFIED LOW-INCOME COMMUNITY INVESTMENT (QLICI)

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

TECHNICAL ASSISTANCE

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

UNDERSERVED COMMUNITY

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

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