



# Audit Report



OIG-16-011

FINANCIAL MANAGEMENT

Audit of the Community Development Financial Institutions  
Fund's Fiscal Years 2015 and 2014 Financial Statements

November 13, 2015

Office of  
Inspector General

Department of the Treasury

## ACCESSIBILITY NOTICE

The attachment to our report, the Community Development Financial Institutions Fund (CDFI) Agency Financial Report (AFR) FY 2015, does not conform to the requirements of Section 508 of the Rehabilitation Act, as it includes tables, Financial Statements, and schedules within the Notes to the financial statements (in the Overview, Financial Statements and Notes section on pages 17-31 and 49-73) that do not meet the Web Content Accessibility Guidelines (2.0) that call for using table markup to present tabular information<sup>1</sup> with table regularity<sup>2</sup>.

To obtain a Section 508 compliant copy of CDFI's FY 2015 AFR, contact [CDFI](#)

Also see:

[Web Accessibility and Section 508 Compliance policy page](#)

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<sup>1</sup> The objective of this technique is to present tabular information in a way that preserves relationships within the information even when users cannot see the table or the presentation format is changed. Information is considered tabular when logical relationships among text, numbers, images, or other data exist in two dimensions (vertical and horizontal). These relationships are represented in columns and rows, and the columns and rows must be recognizable in order for the logical relationships to be perceived.

Using the table element with the child elements tags (tr, th, and td) makes these relationships perceivable. Techniques such as inserting tabs to create columns or using the pre element are purely visual, and visually implied logical relationships are lost if the user cannot see the table or the visual presentation is changed.

<sup>2</sup> Table Regularity requires that to be accessible, tables must contain the same number of columns in each row, and rows in each column.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

November 13, 2015

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

**FROM:** Ade Bankole  
Acting Director, Financial and Procurement Audit

**SUBJECT:** Audit of the Community Development Financial Institutions  
Fund's Fiscal Years 2015 and 2014 Financial Statements

We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the Community Development Financial Institutions (CDFI) Fund as of September 30, 2015 and 2014, and for the years then ended, to provide a report on internal control over financial reporting, and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the CDFI Fund, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles,
- no deficiencies in internal control over financial reporting that are considered material weaknesses, and
- no instances of reportable noncompliance laws, regulations, contracts, and grant agreements tested.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the CDFI Fund's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated November 12, 2015, and the conclusions expressed in the report. However, our review disclosed no instances

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where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5329, or a member of your staff may contact Catherine Yi, Manager, Financial and Procurement Audit, at (202) 927-5591.

Attachment

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**Community Development Financial Institutions Fund**

**United States Department of the Treasury**

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**Agency Financial Report  
FY 2015**

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# Message from the Director

I am pleased to present the fiscal year (FY) 2015 Agency Financial Report for the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund). In addition to all of our programmatic achievements this fiscal year, we continue to demonstrate sound financial management, having obtained an unmodified opinion on our financial statements from independent auditors, with no material weaknesses.

I would like to thank the staff of the CDFI Fund for their exceptional dedication and hard work throughout the fiscal year. Without them, none of the accomplishments highlighted in this report would have been possible.

In September 2015, the CDFI Fund announced the FY 2015 awards for the Community Development Financial Institutions Program (CDFI Program) and the Native American CDFI Assistance Program (NACA Program). The awards totaled over \$201.9 million, of which \$182.3 million in awards was made under the CDFI Program to 152 organizations and \$19.6 million under the NACA Program to 43 organizations.

In September 2015, the CDFI Fund announced Bank Enterprise Award (BEA) Program awards totaling approximately \$18.1 million to 83 FDIC-insured depository institutions through the FY 2015 funding round of the BEA Program. The BEA Program complements the community development activities of insured depository institutions by providing financial incentives to expand investments in and provide support to CDFIs and to increase lending, investment, and service activities in economically distressed communities.

In September 2015, CDFI Fund closed three bond transactions under the CDFI Bond Guarantee Program, totaling \$327 million for nine Eligible CDFIs.

The CDFI Fund selected 76 Community Development Entities to receive tax credit allocation authority totaling more than \$3.5 billion, through the calendar year (CY) 2014 round of the New Markets Tax Credit Program (NMTC Program).

In addition to these programmatic accomplishments, there were a number of other important FY 2015 milestones that I would like to highlight:

- **CDFI Program Risk Assessment Framework:** The Risk Assessment Framework will facilitate internal assessment of CDFIs in the certification and award processes, monitor the risk of non-compliance for awardees, and allow the CDFI Fund to better track industry-wide trends. In FY 2015, the CDFI Fund completed a recommended set of Minimum and Prudent Standards (MAPS) for the core risk metrics, completed a review of key performance measures and risk factors for the annual certification report, and drafted an initial industry risk assessment. The balance of the work in FY 2015 involved developing and calibrating the MAPS to use in the application review process and completing a risk rating framework that can be applied to all business units. In FY 2016, the build out of the model to include application, compliance, and industry-wide risk rating tools will be completed.

- **BEA Program Evaluation:** The CDFI Fund is conducting an evaluation of the BEA Program to assess its performance and determine the extent to which the program has increased bank investments in CDFIs and underserved areas. The evaluation will include a detailed analysis of the evolution of the program, the characteristics of applicants and awardees, and the types and levels of activities undertaken by applicants, awardees, and peer banks and the communities they served. An online survey and in-depth interviews will also be conducted by the research team. The evaluation is scheduled to be completed in 2016.
- **NMTC Program Compliance Risk Research:** In 2015, the CDFI Fund contracted for a study to address issues related to monitoring program outcomes and mitigating compliance risks throughout the seven year tax credit reporting period. The study will analyze the financial structures and the programmatic and compliance outcomes and risks associated with different investments and project types associated with these investments and project types. The study will examine actual investor rates of return, the cost of capital to qualified borrowers, and the fees to borrowers and investors. In addition, the study will help to improve financial monitoring of allocatees and sub-allocatees and to assess the effectiveness of the financing structure in bringing investment projects to completion. The study is scheduled to be completed in spring of 2017.
- **Awards Management Information System (AMIS):** The CDFI Fund deployed the initial version of AMIS in FY 2015. AMIS is a modern, cloud-based platform that will eventually support all CDFI Fund programs through each phase of the programs' life cycle, including certification, program awards and allocations, data analysis, and reporting.
- **Website:** The CDFI Fund launched a completely redesigned website in September 2015.
- **Innovation Challenge:** The CDFI Fund implemented an innovation challenge, the purpose of which is to fund the development of an innovative method, model, tool, or product that CDFIs can use to increase investments in underserved markets, especially in rural areas. The CDFI Fund selected an awardee that will test the feasibility of creating an electronic platform that will allow CDFIs to more efficiently assess, screen and sort credit applications from small business owners in distressed and underserved communities.

As each of these achievements clearly demonstrates, the CDFI Fund continues to succeed in its mission to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

Mary A. Donovan



Director  
 Community Development Financial Institutions Fund  
 November 12, 2015

# Community Development Financial Institutions Fund Overview

## Overview

In 1994, the Community Development Financial Institutions Fund (CDFI Fund) was created for the purpose of promoting economic revitalization and community development through investment in and assistance to Community Development Financial Institutions (CDFIs). Since 1996, the CDFI Fund has administered the Community Development Financial Institutions Program (CDFI Program) and the Bank Enterprise Award Program (BEA Program) to help build the capacity of CDFIs, increase investment in CDFIs, and increase community development lending, investments, and service-related activities in distressed communities, respectively. The CDFI Fund's role in promoting community and economic development was expanded in fiscal year 2001 when the Secretary of the Treasury delegated to the CDFI Fund the responsibility of administering the New Markets Tax Credit Program (NMTC Program). The breadth and depth of the CDFI Fund's reach was further expanded in FY 2008, with the enactment of legislation that created the Capital Magnet Fund (CMF), and again in FY 2010 with the enactment of legislation that created the CDFI Bond Guarantee Program.

Since its creation in 1994, the CDFI Fund has awarded more than \$2.3 billion to CDFIs, community development organizations, and financial institutions through the CDFI Program, the BEA Program, and the Native Initiatives, which includes the Native American CDFI Assistance Program (NACA Program). Further, the CDFI Fund has allocated \$43.5 billion in tax credit authority to Community Development Entities (CDEs) through the NMTC Program, and closed guaranteed bonds in the total amount of \$852 million through the CDFI Bond Guarantee Program.

## Authorizing Legislation

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

## CDFI Fund's Vision and Mission

The vision of the CDFI Fund is to empower America's economically distressed communities. Its mission is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States. The CDFI Fund achieves its purpose by promoting access to capital and local economic growth through the following programs:

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

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

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

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

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

***Capital Magnet Fund***, provides grants for CDFIs and other non-profits to finance the development, rehabilitation, preservation, and purchase of affordable housing and community development facilities for low-income families and communities.

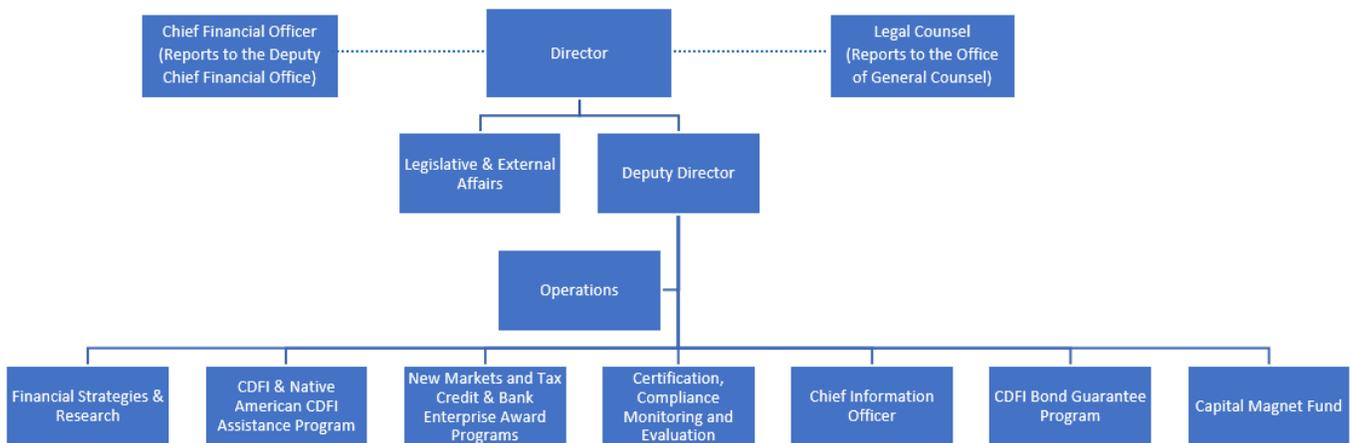
## What is a CDFI?

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

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

## Organization of the CDFI Fund

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



## CDFI Customers

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

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

- Commercial real estate developers who finance the acquisition, construction, or rehabilitation of retail, office, industrial, and community facility space in low-income communities; and
- Individuals who are provided affordable banking services including checking and savings accounts, alternatives to predatory financial companies, and mortgages and other kinds of loans.

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

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

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

CDFI certification is a requirement for accessing Financial Assistance awards through the CDFI Program and the NACA Program, and certain benefits through the BEA Program. In addition, CDFI certification is required for CDFIs to access funding of Eligible CDFIs in order to borrow Bond Loans through the CDFI Bond Guarantee Program. The total number of certified CDFIs as of the end of FY 2015 was 958, representing a net increase of 41 CDFIs since the prior fiscal year end. CDFIs are headquartered in all 50 states, the District of Columbia, Guam, and Puerto Rico.

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

Benefits of CDE certification include being able to: (1) apply to the CDFI Fund to receive an allocation of NMTC authority to offer to investors in exchange for equity investments in the CDE and/or its subsidiaries; or (2) receive loans or investments from other CDEs that have received NMTC authority. As of fiscal year

end, the total number of certified CDEs (not including subsidiaries) was 2,180. CDEs are headquartered in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

## Breakdown of Types of Certified CDFIs

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

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

## Compliance Monitoring and Evaluation

The CDFI Fund recognizes that, with the trust placed in the agency to administer its programs, comes a responsibility to ensure that all award recipients are held accountable for meeting obligations contained in assistance agreements. In FY 2015, the CDFI Fund continued to pivot toward enhanced risk-based practices. It spent the last year laying the groundwork for using the new Awards Management Information System (AMIS) to quickly spot non-compliance and drive efficiency. For example, implementation began in FY 2015 on a new processing system for CDFI Program compliance. Soon, award recipients will be able to receive reminders of reporting deadlines and enforcement actions for non-reporting that are manually based will be automated. While not all of these changes will be visible to the public, the CDFI Fund expects these enhancements to improve the experience of our awardees, while allowing the compliance staff to focus on deeper compliance analysis.

In FY 2015, the CDFI Fund took several important steps in order to ensure that its compliance management function will be a robust effort that includes the following:

- Operational enhancements were made to loan and investment monitoring, which resulted in additional collections activity.
- Changes were made to align various agency rules and guidance to conform to the newly codified Uniform Administrative Requirements.
- A new mandatory Annual Certification and Data Collection Report was developed to collect data and monitor continued compliance with standards for CDFI certification. The Report is required to be completed by certified CDFIs in FY 2016 and will allow for annual monitoring in place of three-year reapplication for certification.
- Development of a compliance risk framework to identify emerging compliance risks among CDFI program awardees. The CDFI Fund seeks in FY 2016 to develop additional predictive models to guide its monitoring and oversight priorities.

When AMIS is fully implemented, electronic compliance testing will enable CDFI Fund compliance staff to perform more thorough compliance analysis, through expanded desk reviews of awardee financial and programmatic data and on-site reviews of awardee accomplishments. The CDFI Fund expects to be able to devote more time to developing compliance resources and guides, reduce instances in which it asks for the same data in different contexts, better align definitions, and provide more transparency with respect to compliance status.

## Allocation of CDFI Fund Funding

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

In FY 2015, the CDFI Fund’s budgetary allocation of \$230.5 million in appropriated funds are as follows:

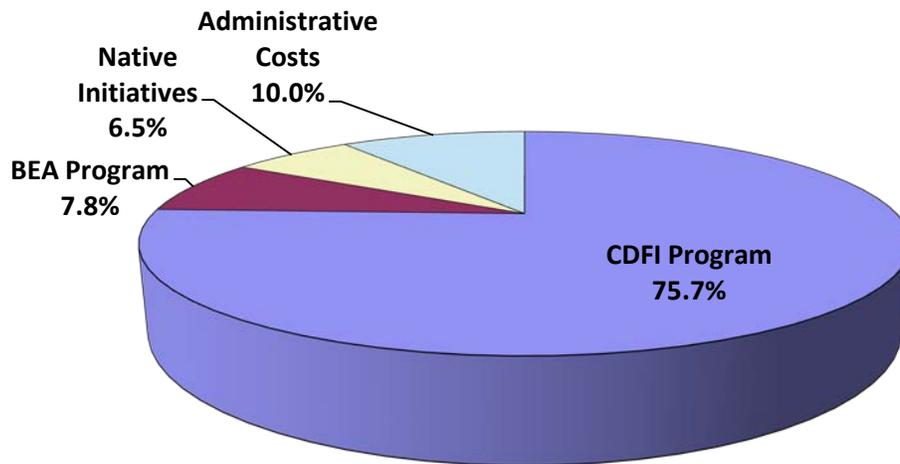
### Funding Allocation (Amounts in Millions)

	FY2015	FY2014
<b>Amounts Funded:</b>		
CDFI Program	174.4	168.4
BEA Program	18.0	18.0
Native Initiatives	15.0	15.0
Administrative Cost	23.1	24.6
Total Amounts Funded	230.5	226.0
Less Amounts Not Obligated <sup>1</sup>	2.6	10.9
<b>Total Funding Used</b>	227.9	215.1

<sup>1</sup>In FY 2014, the CDFI Fund carried over \$10.9 million, which comprises of \$0.8 million from the CDFI Program (this includes unobligated balances from HFFI and the Subsidies for Direct Loans), \$0.1 million from the BEA Program, \$3.7 million from the NACA Program, and \$6.3 million for the Program Administration.

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

## Percent of Amounts Funded in FY 2015



### Sources of Funding

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

### Sources of CDFI Fund Funding (Amounts in Millions)

	FY 2015	FY 2014
Budgetary Appropriations	\$230.5	\$226.0
Prior Year Amounts Deobligated, Used to Fund Current Year Obligations	3.9	4.2
Carryover from Prior Year	10.9	24.8
Spending Authority from Offsetting Collections	0	0.2
No-Year Funds	0	4.0
Borrowing Authority Used	107.8	57.3
<b>Total Sources of Funds</b>	<b>\$353.1</b>	<b>\$316.50</b>

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

# Program Discussion and Analysis

## Community Development Financial Institutions Program

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

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

In FY 2015, the CDFI Program announced awards to 152 organizations totaling over \$182.3 million to CDFIs - \$160.3 million in CDFI Program awards (FA and TA) and \$22 million in Healthy Food Financing Initiative (HFFI) awards. The CDFI Program used \$1.5 million of the FY 2014 funds and \$150.4 million of the FY 2015 funds for \$160.3 million in FY 2015 awards<sup>1</sup>. The HFFI-FA Program used \$50,000 of the FY 2014 funds and \$22 million of the FY 2015 funds for \$22 million in FY 2015 awards.

## CDFI Program: Financial Assistance

The CDFI Program consists of three components, FA awards, HFFI awards, and TA awards. The FA component is by far the most subscribed and includes two categories: Category 1 – Small and Emerging CDFI Assistance (SECA); and Category 2 – Core. 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 to the CDFI Program must demonstrate they have the financial and managerial capacity to make significant impact in the communities they serve. Applicants must: 1) be able to provide affordable and appropriate financial products and services; 2) be a viable financial institution; 3) be able to use CDFI Program awards effectively; and 4) have the ability to leverage their awards with non-Federal funding.

The CDFI Program makes FA awards in the form of equity investments, loans, deposits, and grants; the CDFI awardee is required to match its FA award dollar-for-dollar with non-Federal funds, which determine the form of the award. This requirement enables CDFIs to leverage private capital to meet the demand for affordable financial products and services, including loans, investments, training, and basic financial services such as checking or savings accounts, in economically distressed communities. In FY 2015, SECA and HFFI awards

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<sup>1</sup> The amount of appropriations used is less than the amount awarded because the CDFI Fund borrows the amount of awards made in the form of a loan and only paid the loan subsidy amount (12 percent), therefore the CDFI Fund can make more awards than appropriated.

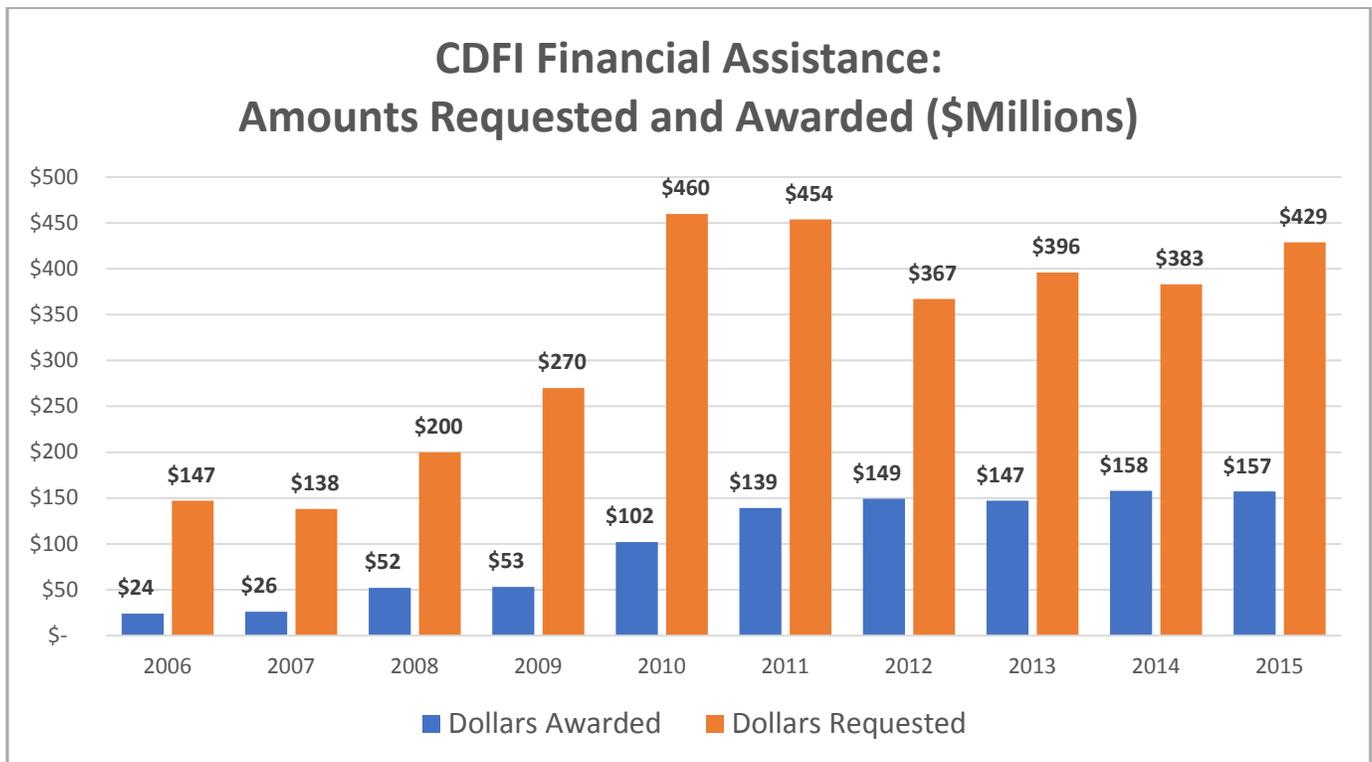
were not required to provide matching funds and the awards were made in the form of a grant.

## FY 2015 CDFI Program FA Awards

In FY 2015, the Financial Assistance component received eligible applications from 306 organizations, requesting \$429 million in FA awards, including 74 SECA applicants requesting \$48 million and 232 Core applicants seeking \$380.9 million.

The CDFI Fund awarded a total of \$157 million to 123 organizations in FY 2015, including 27 SECA awards totaling \$14 million and 96 Core awards totaling \$143 million.

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



## Healthy Food Financing Initiative

In FY 2011, the CDFI Fund launched the Healthy Food Financing Initiative (HFFI) in coordination with efforts being undertaken by the U.S. Department of Agriculture (USDA) and the U.S. Department of Health and Human Services (HHS), and provided FA awards through the CDFI Program to support the initiative. The HFFI represents the Federal government's first coordinated step to eliminate "food deserts" – low-income urban and rural areas in the United States with limited access to affordable and nutritious food – by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships. In addition, the HFFI is part of a larger effort to create quality jobs and promote comprehensive community development strategies to revitalize distressed neighborhoods into healthy and vibrant communities of opportunity. FA awards made through the HFFI can be used to make loans and investments and to provide development services that promote and increase access to healthy food options in low-income communities.

In FY 2015, the CDFI Fund announced \$22 million in HFFI awards through the CDFI Program to 11 organizations to finance healthy food activities. These CDFIs will use the funds to enhance their capacity to make investments in a range of healthy food projects serving food deserts, including grocery stores, mobile food retailers, farmers markets, cooperatives, corner stores, bodegas, and stores that sell other food and non-food items along with a full range of healthy foods. The awardees were located in ten states: Florida, Massachusetts, Maryland, Mississippi, North Carolina, New York, Ohio, Oklahoma, Pennsylvania, and Virginia.

In FY 2015, 21 prior HFFI awardees reported 206 HFFI investments totaling \$88.3 million. There were 119 were retail investments totaling over \$69 million that developed 1,564,732 square feet of new retail space for projects ranging from small green grocers to large supermarkets which served low-income, low-access census tracts. In addition, there were 87 non-retail investments totaling over \$19 million in projects involving production and distribution, which developed 1,718,088 square feet of space for eligible healthy food activities.

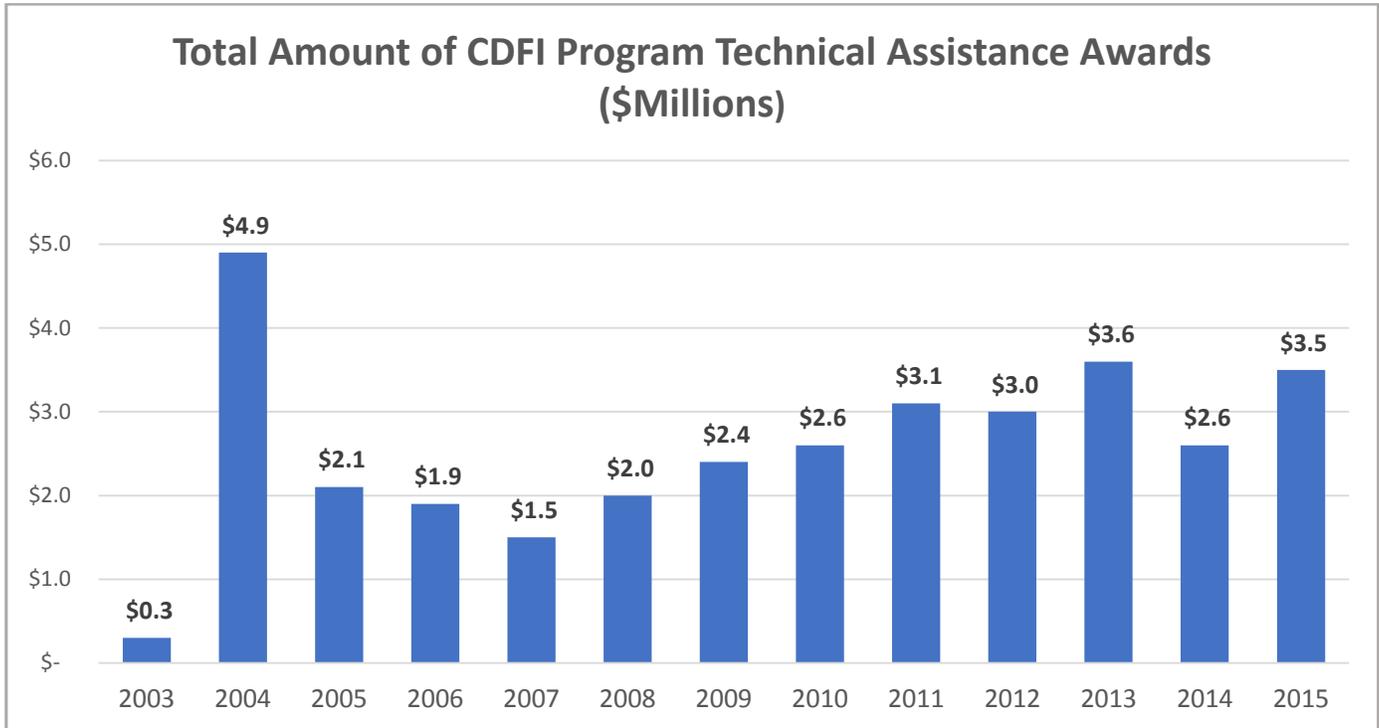
## CDFI Program: Technical Assistance

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

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

## FY 2015 CDFI Program TA Awards

In FY 2015, the CDFI Fund received 50 eligible applications requesting a total of more than \$6 million in TA grants; 29 organizations received awards totaling \$3.5 million.



## CDFI Program Performance

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

The FY 2015 performance information provided here pertains to each awardee’s performance results for FY 2014. Please note that the lag in performance reporting reflects the time it takes to deploy funds and make investments for which actual and projected results can be estimated. The delay in performance reporting reflects the length of time from notice of award to award disbursement, the time it takes for an awardee to deploy the funds, and the additional time it takes to compute and report awardee impact information to the CDFI Fund’s CIIS reporting system. The FY 2015 performance results reported in the table below reflect program outcomes and activities for 2014 and are based on information entered into CIIS by reporting CDFI Program awardees.

In FY 2015, CDFI awardees reported originating loans or investments totaling nearly \$3.4 billion, based on their portfolio of activities in 2014. This includes, but not limited to, \$846 million for home improvement and purchase loans, \$847 million for business and microenterprise loans to 12,319 businesses, and \$718 million for residential real estate transactions. These data on the amount and number of loans or investments originated provide baselines for benchmarking and targeting program performance in the forthcoming fiscal year. In addition, real estate loans financed 25,353 affordable housing units, including 23,345 rental units and 2,008 owner units. CDFIs also provided financial products and services to “unbanked” and underserved individuals by providing 13,539 Individual Development Accounts and financial literacy counseling and other training opportunities to 350,811 individuals.

**Annual Performance of CDFI Program Awardees for  
FY2015<sup>1</sup> (Based on Program Activities Reported in 2014)**

	<b>Amount</b>
<i>Lending and Investing Activity</i>	
<b>Amount of Total Loans/Investments Originated</b>	<b>\$3,391,304,588</b>
Number of Total Loans/Investments Originated	41,539
<b>Business and Microenterprise Originations</b>	<b>\$847,651,509</b>
Number of Originations	14,035
<b>Consumer Originations</b>	<b>\$78,443,221</b>
Number of Originations	11,807
<b>Home Improvement and Home Purchase Originations</b>	<b>\$846,108,788</b>
Number of Originations	12,513
<b>Residential Real Estate Originations</b>	<b>\$718,505,398</b>
Number of Originations	1,137
<b>Commercial Real Estate Originations</b>	<b>\$631,669,224</b>
Number of Originations	1,304
<b>All Other Originations</b>	<b>\$268,926,448</b>
Number of Originations	743
<b>Affordable Housing Units Financed</b>	<b>25,353</b>
Rental Units	23,345
Owner Units	2,008
<b>Business Financed<sup>2</sup></b>	<b>12,319</b>
<i>Financial Access and Literacy</i>	
Open Individual Development Accounts	13,539
Dollars Saved in Individual Development Accounts	\$8,694,173
Individuals Served by Financial Literacy or Other Training	350,811

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<sup>1</sup> Data does not include NACA program award outcomes which are separately tabulated.

<sup>2</sup> This number reflects netting out businesses that received more than one loan

## Native Initiatives

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

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

A Native CDFI is a CDFI that is created to primarily serve the needs of Native Communities. As of September 30, 2015, there were 71 certified Native CDFIs.

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

## FY 2015 NACA Program

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

FA awards are primarily used for financing capital. FA awards are made in the form of loans, grants, deposits, and equity investments to support the certified Native CDFIs’ financing activities, and require the Native CDFI to match the CDFI Fund’s award dollar-for-dollar with funds from a non-Federal source. In FY 2015, the matching funds requirement was waived and all awards were issued in the form of a grant. TA grants are generally used to acquire products or services including computer technology, staff training, and professional services, such as market analysis, and support for other general capacity- building activities. TA grants do not have a matching funds requirement. NACA awardees use their awards to increase their capacity to serve their target market and/or to create/become certified CDFIs.

The performance results reported by NACA Program awardees in FY 2015 show Native CDFIs originated loans or investments totaling \$68 million based on their portfolio of activities in 2014, including over \$48 million in business and microenterprise loans, \$4.5 million in consumer loans and \$13.5 million in home improvement and home purchase loans. In addition, NACA program awardees provided financial literacy training to 17,869 individuals and set up 551 individual development accounts.

In FY 2015, the CDFI Fund received 54 NACA eligible applications requesting more than \$33.8 million for both FA and TA funding. The CDFI Fund awarded 43 organizations a total of \$19.6 million for both FA and TA funding in FY 2015.

## FY 2015 NACA Program FA Awards

In FY 2015, the CDFI Fund awarded 29 Native CDFIs approximately \$17.6 million in NACA FA funds. Similar to the CDFI Program, the CDFI Fund invests in Native CDFIs that provide financing and related services to Native communities and populations lacking access to credit, capital, and financial services.

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

## NACA Program: Technical Assistance Grants

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

## FY 2015 NACA Program TA Awards

In FY 2015, 14 organizations received TA awards totaling \$2 million. Of those organizations, 13 were loan funds, one was a credit union. Below is a chart of the NACA Program/TA awards activity categories.

**FY 2015 NACA Program Technical Assistance Awards Activity Categories**

<b>Category</b>	<b>Amount</b>	<b>Percent of Total</b>
Personnel (Salary & Fringe Benefits)	\$1,509,582	73%
Training	\$50,568	2%
Travel	\$103,753	5%
Professional Services	\$284,935	14%
Equipment & Other Capital Expenditures	\$65,944	3%
Supplies	\$50,713	3%
<b>Total</b>	<b>\$2,065,495</b>	<b>100%</b>

## Native Initiatives Training

Through the CBI, the CDFI Fund engaged a contractor to provide the resources for Native CDFI leaders to identify and address critical challenges of their organization. Please see *The Leadership Journey II: Continuing Native Growth and Excellence* and *Building Native CDFIs' Sustainability and Impact* in the Capacity Building section for more information.

## Capacity Building Initiative

The Capacity Building Initiative is the CDFI Fund's primary means of training the nation's CDFI industry. Through the Capacity Building Initiative, both certified CDFIs and emerging CDFIs nationwide are eligible to access targeted training and technical assistance. Industry-wide training targets key issues currently affecting CDFIs and the communities they serve, including affordable housing and business lending, portfolio management, risk assessment, foreclosure prevention, general business operations, and liquidity and capitalization challenges. Training is offered at locations where CDFIs work, and technical assistance is often provided on-site. Capacity building plans are designed around the specific needs of participating CDFIs. All CDFIs are able to take advantage of online resource banks hosted on the CDFI Fund website.

Specific training series launched or ongoing in FY 2015 include:

- The *Leadership Journey II: Continuing Native Growth and Excellence* series, provided by NeighborWorks® America. This series supported the continued growth and long-term sustainability of experienced Native CDFIs by providing the forum, tools, and resources for Native CDFI leaders to identify and address the critical challenges of their organizations. 148 participants attended The Leadership Journey II training events, 47 participated in webinars, and 13 CDFIs received technical assistance.
- The *Financing Community Health Center* series, provided by Opportunity Finance Network. The series provided advanced training and technical assistance, including one-on-one assistance, and an advanced forum for peer learning for CDFIs to establish and improve services that are critical to the needs of community health centers in an evolving environment. 125 participants attended the Financing Community Health Center training events, 437 participated in webinars, and 37 CDFIs received technical assistance.
- The *Preserving and Expanding CDFI Minority Depository Institutions* series, provided by Deloitte Financial Advisory Services LLP. This series provided assistance to the unique challenges facing CDFI Minority Depository Institutions by providing advanced training and technical assistance. 41 participants attend the Preserving and Expanding CDFI Minority Depository Institution training events, 150 participated in webinars, and eight CDFIs received technical assistance.
- The *Expanding CDFI Investments in Underserved Areas* series, provided by Opportunity Finance Network. The series will increase CDFI coverage in underserved communities by providing advanced training and technical assistance, including one-on-one assistance, peer cohort forums, and advanced implementation forums for CDFIs. Since inception, 169 participants attended the Expanding CDFI Investments in Underserved Areas training events. Training and technical assistance provision will begin in fiscal year 2016.

- The *Building Native CDFIs' Sustainability and Impact* series, provided by NeighborWorks® America. The series will identify the needs of Native CDFIs and provide multifaceted training and technical assistance that will progressively build the capacity of each Native CDFI to build their sustainability and impact in Native communities. Since inception, 90 participants attended the Building Native CDFIs' Sustainability and Impact training events, 46 participated in webinars, and 27 CDFIs received technical assistance.

**CDFI and NACA Program Risk Assessment Framework:** This project was launched in March 2014 and is in the third phase of development. The Risk Assessment Framework will facilitate internal assessment of CDFIs and NACA applicants in the certification and award processes, monitor the risk of non-compliance for awardees, and allow the CDFI Fund to better track and publish industry-wide trends. In FY 2015, the CDFI Fund completed a set of Minimum and Prudent Standards (MAPS) for the program's key risk and performance metrics, completed a review of key financial performance measures for the annual certification report, and drafted an initial industry risk assessment. The balance of the work in FY 2015 involved developing and calibrating the MAPS to use in the application review process for both CDFI and NACA applicants and completed a suite of risk rating frameworks for use by the program, compliance, certification and research business units. In FY 2016, the suite of risk rating and assessment tools will be built out, including the application, compliance, and industry-wide risk rating tools to assess CDFI and NACA organizational performance and risk. These tools will provide the following integrated capabilities:

- Assessing organizational risk of CDFI and NACA Program applicants' portfolios and management capabilities;
- Building a robust compliance risk assessment framework to identify emerging compliance risks among awardees;
- Building a certification assessment framework that integrates the data from the Annual Certification Report and target market sampling to verify target market deployment;
- Providing CDFI industry-wide data to the public detailed by institution type, asset size, and geographical concentration, and other factors affecting industry performance; and,
- Building a Direct Loan Component Credit Risk Assessment Framework.

## New Markets Tax Credit Program

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

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

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

The NMTC Program was authorized under the Community Renewal Tax Relief Act of 2000. The statute included \$15 billion in allocation authority for seven years. Since the NMTC Program was enacted, it has been reauthorized four times; most recently, the Taxpayer Relief Act of 2012 extended the program through 2013. Additionally, the Hurricane Katrina Gulf Opportunity (GO) Zone Act of 2005 authorized an additional \$1 billion in allocation authority toward the rebuilding and renewal of the GO Zone, and the American Recovery and Reinvestment Act (Recovery Act) provided an additional \$3 billion in allocation authority to assist in the economic recovery. Combined, Congress has authorized the CDFI Fund to award \$43.5 billion in NMTC authority through CY 2014.

Additionally, the Tax Relief and Health Care Act of 2006 required that Treasury prescribe regulations to ensure that non-metropolitan counties receive a proportional allocation of QEIs. The CDFI Fund's process for ensuring proportional non-metropolitan investment is described in the NMTC Program calendar year (CY) 2014 Notice of Allocation Availability (NOAA).

## Results of the First 12 NMTC Allocation Rounds

NMTC allocations are awarded annually through a competitive process. CY 2002 was the first year in which applications for NMTC allocation authority were submitted to the CDFI Fund. To date, the CDFI Fund has completed 12 allocation rounds and has made 912 awards totaling \$43.5 billion in allocation authority. This amount includes the \$3 billion of Recovery Act-authorized allocations (\$1.5 billion through the CY 2008 NMTC allocation round and \$1.5 billion through the CY 2009 NMTC allocation round).

<b>Applications as of CY 2015</b>			
<b>Round</b>	<b>Year</b>	<b>Number</b>	<b>Amount (Billions)</b>
1	2002	345	\$25.8
2	2003/4	271	\$30.4
3	2005	208	\$22.9
4	2006	254	\$28.3
5	2007	258	\$27.9
6	2008	239	\$21.3
7	2009	249	\$22.5
8	2010	250	\$23.5
9	2011	314	\$26.7
10	2012	282	\$21.9
11	2013	310	\$25.9
12	2014	263	\$19.9
<b>Totals</b>		<b>3243</b>	<b>\$297.0</b>

<b>Allocations as of CY 2015</b>			
<b>Round</b>	<b>Year</b>	<b>Number</b>	<b>Amount (Billions)</b>
1	2002	66	\$2.5
2	2003/4	63	\$3.5
3	2005	41	\$2.0
4	2006	63	\$4.1
5	2007	61	\$3.9
6	2008	102	\$5.0
7	2009	99	\$5.0
8	2010	99	\$3.5
9	2011	70	\$3.5 <sup>1</sup>
10	2012	85	\$3.5
11	2013	87	\$3.5
12	2014	76	\$3.5
<b>Totals</b>		<b>912</b>	<b>\$43.5</b>

Demand for NMTC allocation authority has been high since the program’s inception, as 3,243 applicants have requested tax credit authority supporting a total of more than \$297 billion in equity investments – approximately seven times the amount of allocation authority available for awards by the CDFI Fund. Through the first 12 allocation rounds, only about 28 percent of applicants were selected to receive an award. The average NMTC authority award through the first 12 rounds was approximately \$47.7 million.

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<sup>1</sup> The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 provided \$3.5 billion in allocation authority for the CY 2011 Round. In addition to the \$3.5 billion, the NMTC Program allocated \$122.9 million of unused, rescinded or surrendered allocation authority from prior rounds.

## CY 2014 NMTC Allocation Round

In June 2015, the CDFI Fund announced that 76 applicants were awarded more than \$3.5 billion in the CY 2014 NMTC allocation round. The 76 applicants selected to receive awards are headquartered in 32 different states and the District Columbia.

These 76 allocatees have committed to achieving results above and beyond minimal program requirements:

All 76 allocatees indicated that 100 percent of their investment dollars would 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. Such features include, among other things, subordinated debt, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.

All 76 allocatees committed to providing at least 75 percent of their investments to areas of higher economic distress (and/or areas targeted for development by other government programs) than are minimally required under the NMTC Program.

Internal Revenue Service regulations for the NMTC Program require that at least 85 percent of QEI dollars be invested in Qualified Low-Income Community Investments (QLICIs). All 76 of the allocatees indicated that they would invest at least 95 percent of QEI dollars in QLICIs. In real dollars, this means that at least \$453 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.

As detailed in the CY 2014 NOAA, the CDFI Fund sought to ensure that (1) an appropriate proportion of awards were provided to “Rural CDEs” and (2) that at least 20 percent of all dollars invested by allocatees under the CY 2014 allocation round are invested in non-metropolitan counties. With respect to the first objective, 12 allocatees, receiving allocations totaling \$625 million, met the criteria for “Rural CDE” designation. In total, 31 of the 76 allocatees are required to deploy some or all of their investments in non-metropolitan counties. This ensures that approximately \$689 million will be deployed in non-metropolitan counties after removing costs for CDE administrative expenses.

## CY 2015 NMTC Allocation Round

The CDFI Fund anticipates publishing a Notice of Allocation Authority, subject to Congressional authorization, for the CY 2015 NMTC allocation round in the fall.

## NMTC Activities to Date

Allocation agreements have been executed with each of the 912 allocatees from the first 12 rounds. As of September 30, 2015, allocatees had reported raising QEIs totaling more than \$39.1 billion. This figure represents over 89 percent of the \$43.5 billion in allocation authority issued to CDEs to date.

Allocatees report QEI and QLICI activity to the CDFI Fund through the Allocation Tracking System (ATS) and Community Investment Impact System (CIIS). Allocatees that have raised QEIs are required to report these investments within 60 days via ATS. Within six months of the end of their fiscal year end, CDEs must complete an annual Institution Level Report (ILR) via CIIS. Allocatees that have made QLICIs are also required to submit an annual Transaction Level Report (TLR) in CIIS. An allocatee's ILR, TLR, and audited financial statements are due 180 days after the end of its fiscal year.

All results in the chart below represent the allocatees' CIIS data reported for fiscal year 2015 (program year 2014). As shown in the table below, for this program year allocatees reported making over \$3 billion of loans and investments in Qualified Active Low Income Community Businesses (QALICBs). In FY 2015, allocatees reported that these funds will create 6,975 jobs and funded construction-related jobs totaling 26,162. In FY 2015, 37.7 percent of the dollars invested were invested in "real estate QALICBs" (i.e., businesses that develop or lease real property for use by others). In addition, over 61 percent of the dollars were invested in "non-real estate QALICBs" (i.e., operating businesses) in low-income communities and the remaining investments were direct investments into other CDEs. Allocatees reported providing nearly \$1.3 million in financial counseling and other services to businesses in low-income communities. Adding together all QLICIs yields a grand total of \$38.5 billion of cumulative investments was reported in CIIS since 2003.

**Annual Performance of NMTC Program Allocatees for FY 2015  
(Based on Program Activities Reported in 2014)**

	<u><b>Amount</b></u>
<i><b>Lending and Investing Activity</b></i>	
<b>Total Qualified Low-Income Community Investments (QLICIs)</b>	<b>\$3,053,270,281</b>
Number of QLICIs	984
<b>Real Estate Activity (Investments in QALICBs<sup>2</sup>)</b>	<b>\$1,149,568,513</b>
Number of QLICIs	376
<b>Non-Real Estate Activity (Investments in QALICBs)</b>	<b>\$1,870,905,209</b>
Number of QLICIs	596
<b>Loans/Investments Made to Other Community Development Entities (CDEs)</b>	<b>\$32,796,559</b>
Number of QLICIs	12
<b>Percent of Loans/Investments in Severely Distressed Communities<sup>3</sup></b>	<b>75.2%</b>
<b>Jobs at Reporting Period End</b>	<b>6,975</b>
<b>Projected Construction Jobs</b>	<b>26,162</b>
<b>Affordable Housing Units Financed</b>	<b>522</b>
Rental Units	284
Owner Units	238
<b>Square Feet of Commercial Real Estate</b>	<b>10,572,214</b>
Manufacturing	4,141,634
Office	5,289,356
Retail	1,141,224
<b>Businesses Financed</b>	<b>448</b>
<i><b>Financial Counseling and Other Services</b></i>	
Total Investments	\$1,263,753
Number of Businesses Served	8,741

<sup>2</sup> Qualified Active Low-Income Community Businesses

<sup>3</sup> “Severely distressed” communities include Census tracts with poverty rates above 30 percent; or median family incomes below 60 percent of the metropolitan or state median; or unemployment rates greater than 1.5 times the national average.

**Cumulative Performance of NMTC Program Allocatees<sup>1</sup>**  
**(Based on Program Activities Reported in 2003-2014)**

	<u><b>Amount</b></u>
<i><b>Lending and Investing Activity</b></i>	
<b>Total Qualified Low-Income Community Investments (QLICIs)</b>	<b>\$38,478,167,063</b>
Number of QLICIs	10,239
<b>Real Estate Activity (Investments in QALICBs)</b>	<b>\$20,016,681,816</b>
Number of QLICIs	4,798
<b>Non-Real Estate Activity (Investments in QALICBs)</b>	<b>\$17,678,413,121</b>
Number of QLICIs	5,219
<b>Loans/Investments Made to Other Community Development Entities (CDEs)</b>	<b>\$783,072,126</b>
Number of QLICIs	222
<b>Percent of Loans/Investments in Severely Distressed Communities</b>	<b>74.46%</b>
<b>Jobs at Reporting Period End<sup>2</sup></b>	<b>197,585</b>
<b>Projected Construction Jobs</b>	<b>378,976</b>
<b>Affordable Housing Units Financed</b>	<b>12,724</b>
Rental Units	7,016
Owner Units	5,708
<b>Square Feet of Commercial Real Estate</b>	<b>164,878,972</b>
Manufacturing	32,479,103
Office	74,886,317
Retail	57,513,552
<b>Businesses Financed<sup>3</sup></b>	<b>4,827</b>
<i><b>Financial Counseling and Other Services</b></i>	
Total Investments	\$32,496,098
Number of Businesses Served	47,244

## Bank Enterprise Award Program

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

<sup>1</sup> Numbers of Qualified Low-Income Community Investments (QLICIs) refer to the number of transactions, not the number of New Markets Tax Credit projects

<sup>2</sup> Please note that several outcome measures reflect reductions in cumulative values from prior years, particularly jobs, affordable housing units and square footage, due to reporting changes by allocatees and implementation of more thorough data cleansing rules which eliminated duplicates records from the reported data.

<sup>3</sup> The cumulative estimate of businesses financed nets out those businesses that have reported in multiple years as part of the same project.

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

Providing monetary awards for reinvestment in distressed communities leverages the CDFI Fund's dollars and puts more capital to work in distressed communities throughout the nation. The BEA Program is targeted to the most highly distressed areas with larger populations. Of the 66,434 total census tracts under the 2000 decennial census data, only 2,651 were considered fully qualified and only 12,020 were considered partially qualified as distressed communities under BEA Program eligibility criteria. Of the 74,002 total census tracts under the 2006-2010 American Community Survey data, only 2,167 census tracts were fully qualified and only 17,014 were considered partially qualified as distressed communities under BEA Program eligibility criteria.

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

## Promoting CDFI Investments through the BEA Program

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

The CDFI Fund makes awards to applicants in the CDFI-Related Activities category before making awards to applicants in the Distressed Community Financing Activities category and Service Activities category. The prospect of a BEA Program award encourages banks to achieve this first priority by providing low-cost capital and operating support to CDFIs, which has helped to create and sustain a network of CDFIs. CDFIs serve as conduits for banks to effectively serve highly distressed communities.

## Eligibility

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

- 1) CDFI-Related Activities: Equity investments (grants, stock purchases, purchases of partnership interests, limited liability company membership interests, or equity-like loans); and CDFI support activities (loans, deposits or technical assistance) to certified CDFIs (referred to as CDFI Partners).
- 2) Distressed Community Financing Activities: Direct financing in the form of loans and investments to businesses and/or residents of distressed communities for affordable housing, affordable housing

development, home improvement, education, small businesses, small dollar consumer loans, and commercial real estate development.

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

## FY 2015 BEA Program Awards

In September 2015, the CDFI Fund announced awards totaling nearly \$18.1 million to 83 FDIC-insured depository institutions through the FY 2015 funding round of the program. Collectively, these 83 depository institutions provided \$549.4 million in qualified loans or investments in distressed communities; \$90.8 million in qualified loans, deposits, and technical assistance to CDFIs; \$4.3 million in equity, equity-like loans and grants to CDFIs; and \$7.4 million in qualified financial services in distressed communities during the assessment period of January 1, 2014 – December 31, 2014.

## FY 2015 BEA Community Impact

FY 2015 BEA Program awardees increased their qualified community development activities by \$460.6 million over the prior year:

- \$340.2 million increase in loans and investments in distressed communities;
- \$112.8 million increase in equity, equity-equivalent loans, deposits, and technical assistance to CDFIs;  
and
- \$7.6 million increase in the provision of financial services in distressed communities

The distribution of FY 2015 BEA Program award dollars by identifiers associated with the underlying depository institutions is shown in the Distribution of BEA Program Awards table below.

**FY 2015 Distribution of BEA Program Awards**

<b>Category</b>	<b>Number of Awardees</b>	<b>Award Amount</b>	<b>Percentage of Award Dollars</b>
Certified-CDFIs*	67	\$16.7 million	92%
Minority Depository Institutions*	15	\$3.5 million	19%
<b>Small Banks</b>			
(assets of less than \$300 million as of 12/31/2014)	43	\$10.4 million	57%
<b>Intermediate Banks</b>			
(assets of at least \$300 million but less than \$1.202 billion as of 12/31/2014)	31	\$6.6 million	36%
<b>Large Banks</b>			
(assets of \$1.202 billion or greater as of 12/31/2014)	9	\$1.1 million	7%

**BEA Program Evaluation:** In October 2014, the CDFI Fund began the BEA Program Evaluation to assess the program’s performance and determine whether the extent to which the program has increased bank investments in CDFIs and underserved areas. The evaluation will conduct a detailed analysis of the evolution of the program, the characteristics of applicants and awardees, and the types and levels of activities undertaken by applicants, awardees and peer banks and the communities they served. An online survey and in-depth interviews will also be conducted by the research team. The evaluation is scheduled to be completed in 2016.

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\* Some award recipients are both Certified CDFIs and Minority Depository Institutions.

## Capital Magnet Fund

The Capital Magnet Fund (CMF) was authorized by Congress through the Housing and Economic Recovery Act of 2008, which required the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac to set aside an amount equal to 4.2 basis points for every dollar of their unpaid principal balances of total new business purchases, to be paid to support the Housing Trust Fund (administered by the Department of Housing and Urban Development) and the CMF. GSE funding for CMF was suspended after enactment of the legislation, but Congress appropriated \$80 million for an initial funding round in FY 2010. No CMF funding has been appropriated since FY 2010.

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

Awardee reports available through September 30, 2015 indicate the following updates on CMF-financed affordable housing and community development activities, through the end of the awardees' FY 2014:

Total number of affordable homes under development or completed with CMF financing include: 9,887 (net addition of 1,129);

- Affordable rental homes financed: 8,813 (net addition of 900);
- Affordable homeowner-occupied homes financed: 1,074 (net addition of 229); includes assistance to 328 income-eligible first-time homebuyers;
- Leverage: 1:20 (This ratio does not include leverage from the reinvestment of funds. The target set by Congress was 10 times leveraging.)

## CDFI Bond Guarantee Program

The CDFI Bond Guarantee Program was enacted by the Small Business Jobs Act of 2010. Through the program, the Secretary of the Treasury provides a 100 percent guarantee of bonds (including principal, interest, and call premiums) issued by Qualified Issuers. Bonds issued through the program support CDFI lending and investment activity in underserved communities by providing a source of long-term capital. Qualified Issuers use bond proceeds to finance loans to CDFIs for eligible community and economic development purposes. In the fourth quarter of FY 2015, the CDFI Fund closed three bond transactions and the Secretary issued the corresponding three guarantees under the FY 2015 application round of the CDFI Bond Guarantee Program, totaling \$327 million. Since the inception of the program, the total amount of bonds closed and corresponding guarantees are \$852 million.

# Status of Financial Management

This section includes a description of the Fund's financial management system, a summary of the results of the FY 2015 financial statement audit, a summary of the financial management initiatives of the CDFI Fund during FY 2015, and a discussion of the CDFI Fund's financial position and results of operations during the past fiscal year.

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

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

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

## Results of FY 2015 Financial Statement Audit

The FY 2015 audit of the CDFI Fund's financial statements resulted in an unmodified opinion.

## FY 2015 Financial Management Initiatives

In FY 2015, financial management focus was on continued efforts to fully implement the requirements of the Uniform Administrative Requirements codified by Treasury (formerly, OMB's SuperCircular).

## Community Investment Impact System (CIIS)

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

Cumulatively through FY 2014, 777 CDFIs reported an ILR, of which 401 reported 414,325 transactions, and 293 CDEs reported 10,239 transactions.

In June 2015, the CDFI Fund released eleven years of data provided by Community Development Financial Institutions (CDFIs) through its data collection system, known as the Community Investment Impact System (CIIS). The data collected covers fiscal years (FY) 2003 through 2013.

The release contains Institution Level Report (ILR) data on 728 CDFIs that have reported to CIIS. In general, these CDFIs have provided information on their operation, financial status, and impact in their communities. A previous data release in 2014 consisted of ILR data on 592 CDFIs that had reported to CIIS from FY 2003 through 2012.

Additionally, Transaction Level Report (TLR) data was also released to the public detailing how CDFIs provide loans or investments in low-income communities. The data file includes the features and location of over 350,000 individual loans and investments totaling more than \$23 billion made by 370 CDFIs. A previous data release in 2014 consisted of TLR data on 339 CDFIs that had reported to CIIS from FY 2003 through 2012.

In June 2015, the CDFI Fund released a report and transactional and project level data on the New Markets Tax Credits (NMTC) Program for the 2002-2013 reporting years. The report details how \$35.3 billion in tax credits have been invested in revitalizing low-income communities throughout the nation. NMTCs were utilized in over 3,468 businesses and 5,568 real estate investments across the country. Of the Qualified Low-Income Community Investments (QLICs) made, the cumulative distribution is as follows:

- 5,568 (60.5 percent of total) QLICs totaling \$23,455,618,766 (66.4 percent of total), were made in real estate development and leasing activities.
- 3,468 (37.7 percent of total) QLICs totaling \$11,246,333,008 (31.8 percent of total) were made in operating businesses.
- 164 (1.8 percent of total) QLICs totaling \$625,206,394 (1.8 percent of total) were investments in other CDEs.

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

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

## **Use of Grants.gov for Paperless Processing of Grant Applications**

The Federal Financial Assistance Management Improvement Act (FFAMIA) requires all Federal grant-making agencies to migrate 100 percent of their electronic grant program applications to the Grants.gov system administered by the Department of Health and Human Services. In FY 2015, the CDFI Fund achieved 100 percent compliance with the FFAMIA. The CDFI Fund received 629 award applications, and all applications were received through Grants.gov. The CDFI Fund intends to continue working with Grants.gov for the receipt of all future award applications.

## **Migration to an Award Management Information System for Internal Application Processing**

The CDFI Fund deployed the initial version of AMIS in September 2015 with implementation being completed in FY 2016. With the deployment of AMIS, the CDFI Fund expects to be able to handle larger volumes of grants, tax credits, and loan portfolios while achieving more transparency and better data quality, and providing better service to customers.

## **Digital Accountability and Transparency Act**

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

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

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

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

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

## **Improper Payments Elimination and Recovery Act of 2010 (IPERA)**

During fiscal year (FY) 2010, President Obama placed renewed emphasis on the reduction of improper payments beginning with Executive Order 13520, Reducing Improper Payments, issued on November 20, 2009. On July 22, 2010, President Obama signed into law the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. 111-204). IPERA amended IPIA, generally repealing the Recovery Audits Act

(31 U.S.C. §§ 3561-3567, within the Defense Authorization Act of FY 2002), and significantly increasing agency payment recapture efforts by expanding the types of payments that are in scope for review and lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs.

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

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

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

## Management Responsibilities

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

## Limitations of the Financial Statements

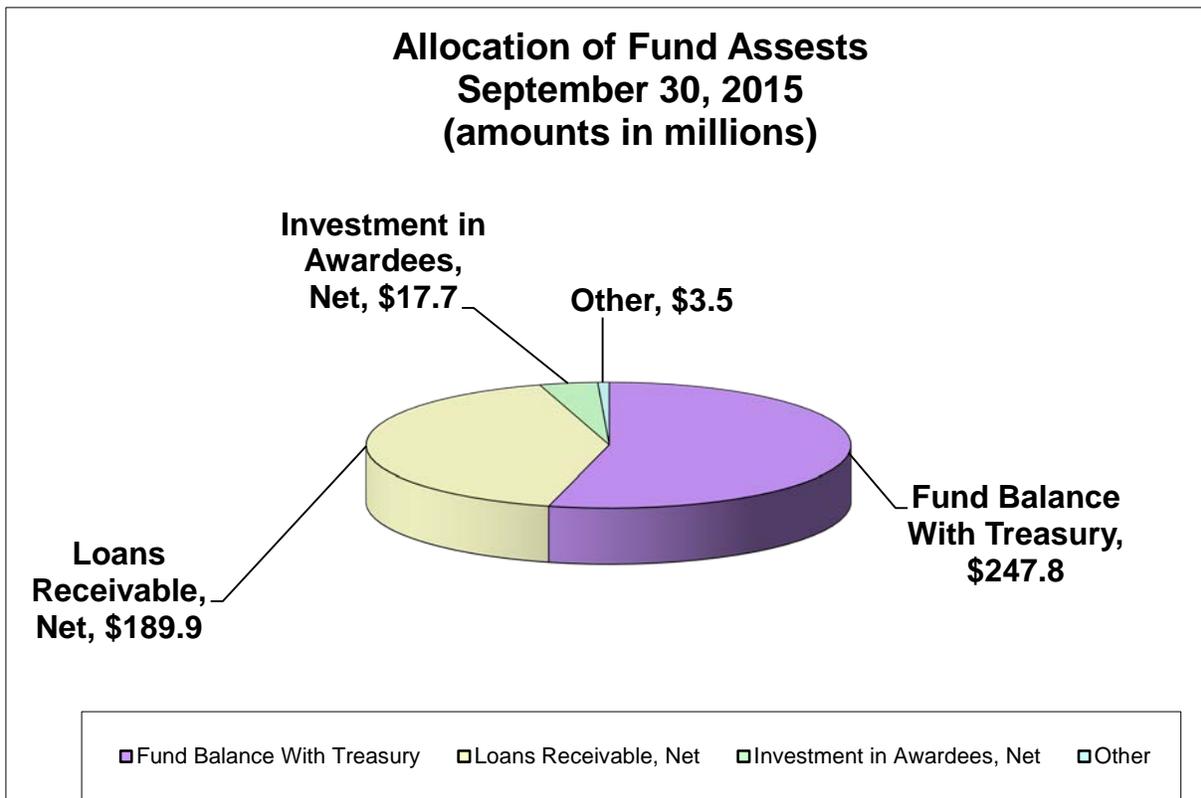
The financial statements report the financial position, results of operations, changes in net position, and cash flows of the CDFI Fund as of and for the fiscal years ending on September 30, 2015 and 2014, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from 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 2015	FY 2014	Increase / (Decrease)
Assets	\$458.9	\$354.7	\$104.2
Liabilities	\$215.1	\$114.0	\$101.1
Net Position	\$243.8	\$240.7	\$3.1
Revenue and Financing Sources	\$227.0	\$234.2	(\$7.2)
Expenses	\$230.4	\$236.4	(\$6.0)
Excess (Shortage) of Revenue and Financing Net Gain (Net Loss)	(\$3.4)	(\$2.2)	(\$1.2)

### Allocation of Fund Assets September 30, 2015



## **Assets**

Assets increased by \$104.2 million during FY 2015. Loans receivable increased \$96.1 million due to new loans issued in FY 2015 under the CDFI Bond Guarantee Program and the CDFI FA Program. In addition there was a \$6.2 million increase in the Fund Balance with Treasury due to appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments.

### ***Fund Balance with Treasury***

The Fund Balance with Treasury reflected a \$6.2 million increase from the prior year, due to differences in the timing of when appropriation revenue is received versus when expenses are paid.

### ***Loans Receivable***

Loans receivable are increased when loan awards (under the CDFI, NACA and CDFI Bond Guarantee programs) are disbursed by the CDFI Fund and decreased for loan repayments and loan write-offs. During FY 2015, net loans increased by \$96.1 million resulting, in part, from new loans of \$104.3 million offset by loan repayments of \$6.3 million.

### ***Investments***

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

- Non-voting equity securities - \$13.9 million
- Convertible subordinated debt - \$0.6 million
- Limited partnerships - \$1.1 million
- Secondary Capital - \$2.1 million

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

## **Liabilities**

The increase in liabilities during the year of \$101.1 million consisted primarily of an increase in debt of \$100.6 million.

### ***Debt***

During FY 2015, the CDFI Fund borrowed \$102.8 million for new loans, \$4.2 million due to a downward subsidy re-estimate and \$0.8 million to meet annual interest payments due to the Treasury Department, at interest rates ranging from 1.92% to 6.36%, depending on maturity dates or risk categories. The CDFI Fund borrowing was partly offset by the repayments of amounts borrowed from Treasury totaling \$6.3 million. Principal repayments collected from awardee loans during the year are used to repay the Treasury borrowings, and therefore amounts collected and repaid to Treasury each year will vary from year to year, as they are a function of awardee loan terms.

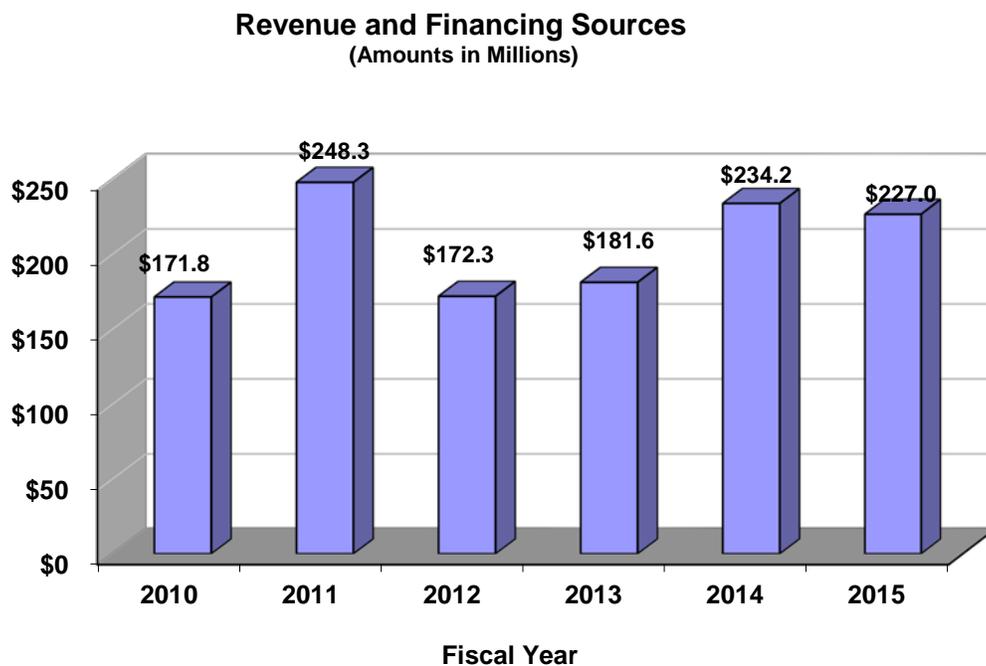
## **Net Position**

Net position increased during the year by \$3.1 million. Net position will change during the year as a result of the following: 1) the difference between appropriations received (net of appropriations cancelled,

rescinded and adjusted for credit subsidy re-estimates) and appropriations used; 2) any adjustment of the CDFI Fund’s subsidy re-estimate; and 3) the excess (shortage) of revenue and financing sources over (under) expenses. During FY 2015, appropriations received and appropriations for subsidy re-estimate (net of amounts cancelled, rescinded and downward subsidy re-estimate) were \$226.8 million, and appropriated capital used was \$220.3 million resulting in an increase in net position of \$6.4 million. This increase in net position was decreased by the \$3.4 million loss recorded by the CDFI Fund in FY 2015.

### 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 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 by others, were \$222.4 million.



## Expenses

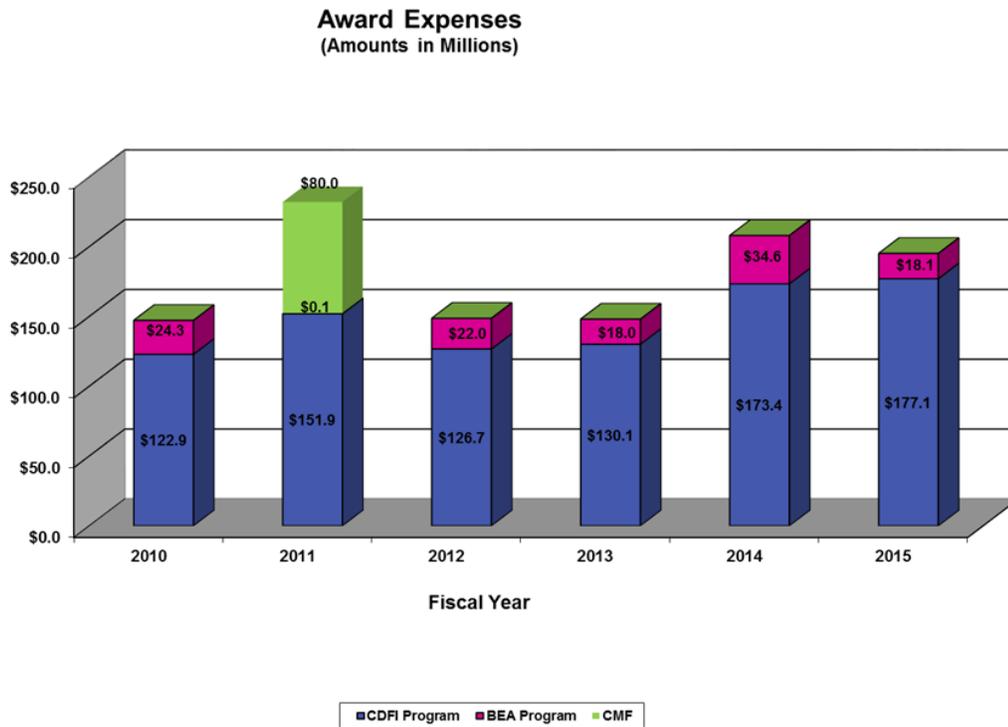
The change in the CDFI Fund’s operating expenses, excluding administrative expenses paid by others during FY 2015 consisted of the following:

### Comparison of Operating Expenses Excluding Administrative Expenses Paid by Others Fiscal Years 2015 and 2014 (Amounts in Millions)

	FY 2015	FY 2014	Difference
Award Expenses	\$195.2	\$207.9	(\$12.7)
Administrative Expenses	\$25.3	\$24.4	\$0.9
Bad Debt Expense	\$1.9	(\$0.1)	\$2.0
Total Operating Expenses	\$222.4	\$232.2	(\$9.8)

### Award Expenses

Award expenses during the year decreased \$12.7 million. CDFI Program award expenses increased \$3.7 million and BEA award expenses decreased \$16.4 million due to the timing of the awards; both FY 2013 and FY 2014 BEA award rounds were announced in FY 2014, whereas FY 2015 BEA awards were announced in FY 2015.



### Administrative Expenses

Administrative expenses increased by \$0.9 million during FY 2015. This increase was primarily due to a \$2.9 million increase in contractual services with external parties; offset by a decrease of \$1.2 million for contractual services with other agencies.

### ***Bad Debt Expense***

Bad debt expense is a function of the impairment related to loans receivable at year-end including the impact of certain loan restructurings made during the year. The CDFI Fund performs an analysis process that includes an individual review of all loans using an asset to liability ratio from the awardees' most recent financial statements. Bad debt expense increased during FY 2015 by \$2.0 million due to an increase in delinquent and impaired loans. As the Secretary of the Treasury issues guarantees for the full amount of bond issues to support BGP loans, CDFI does not bear any BGP loan defaults, accordingly, no allowance is needed over BGP loans.

### **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 excess (shortage) of revenue and other financing sources over expenses (net gain/loss) will consist of the amount by which revenue and financing sources other than appropriated capital used exceeds expenses not covered by budgetary resources. For FY 2015, expenses not covered by budgetary resources totaled \$7.3 million, consisting of \$6.5 million of interest expense on Treasury borrowings and \$0.8 million for an impairment loss on an investment. Interest and dividend income totaled \$5.7 million.

# **Independent Auditors' Report**



KPMG LLP  
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1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Inspector General  
U.S. Department of the Treasury

Director  
Community Development Financial Institutions Fund

### Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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



### ***Opinion on the Financial Statements***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of the Treasury's Community Development Financial Institutions Fund as of September 30, 2015 and 2014, and the results of its operations, changes in net position, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Other Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015 on our consideration of the CDFI Fund's internal control over financial reporting and our report dated November 12, 2015 on 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* in considering CDFI Fund's internal control over financial reporting and compliance.

**KPMG LLP**

November 12, 2015



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1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General  
U.S. Department of the Treasury

Director  
Community Development Financial Institutions Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2015, we considered the CDFI Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDFI Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDFI Fund's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Purpose of this Report**

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

KPMG LLP

November 12, 2015



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## Independent Auditors' Report on Compliance and Other Matters

Inspector General  
U.S. Department of the Treasury

Director  
Community Development Financial Institutions Fund

We have audited, in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2015.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDFI Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

### Purpose of this Report

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

KPMG LLP

November 12, 2015

# **Financial Statements and Notes**

**Community Development Financial Institutions Fund**  
**Statements of Financial Position**  
**As of September 30, 2015 and September 30, 2014**

<b>Assets</b>	<b>2015</b>	<b>2014</b>
<b>Current Assets:</b>		
<i>Fund Balance with Treasury (Note 4)</i>	\$ 247,847,169	\$ 241,627,621
<i>Advances and prepayments</i>	748	748
<i>Loans Receivable, Net of Allowance for Bad Debts (Note 5)</i>	189,870,979	93,787,237
<i>Investments, Amortized Cost (Note 6)</i>	2,694,766	2,651,527
<i>Investments, Cost Method (Note 8)</i>	13,881,383	13,554,770
<i>Investments, Equity Method (Note 9)</i>	1,103,333	1,154,662
<i>Interest and Other Receivables</i>	492,540	477,057
<i>Internal-use Software, Net of Accumulated Amortization</i>	831,904	1,043,774
<i>Internal-use Software In Development</i>	2,204,706	431,706
<b>Total Assets</b>	<b>\$ 458,927,528</b>	<b>\$ 354,729,102</b>
<b>Liabilities and Net Position</b>		
<i>Accounts Payable</i>	\$ 2,615,959	\$ 2,010,655
<i>Awards Payable</i>	19,590,783	19,939,952
<i>Accrued Payroll</i>	342,391	263,109
<i>Accrued Annual Leave</i>	707,168	564,021
<i>Due to the General Fund (Note 10)</i>	40,000	16,620
<i>Debt (Note 11)</i>	191,814,231	91,198,888
<i>Total Liabilities</i>	<b>\$ 215,110,532</b>	<b>\$ 113,993,245</b>
<i>Commitments (Note 12)</i>		
<i>Unexpended Appropriations (Note 13)</i>	\$ 231,850,196	\$ 225,408,376
<i>Cumulative Results of Operations</i>	11,966,800	15,327,481
<i>Total Net Position</i>	<b>243,816,996</b>	<b>240,735,857</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 458,927,528</b>	<b>\$ 354,729,102</b>

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

**Community Development Financial Institutions Fund**  
**Statements of Operations and Changes in Net Position**  
**For the Years Ended September 30, 2015 and September 30, 2014**

	<b>2015</b>	<b>2014</b>
<i>Revenue and Financing Sources:</i>		
Appropriations	\$ 220,339,387	\$ 230,244,204
Imputed Other Income (Note 14)	705,258	886,482
Interest, Non-Federal	5,408,143	2,751,287
Interest, Federal	262,078	176,937
Dividends	75,273	75,655
Other	175,311	105,089
Equity in Gain of Associates, Net	30,234	1,329
<i>Total Revenue and Financing Sources</i>	226,995,684	234,240,983
<i>Expenses:</i>		
CDFI Grants (Note 15)	\$ 177,043,620	\$ 173,384,476
BEA Grants	18,116,961	34,552,772
Administrative Expenses (Note 16)	25,252,465	24,374,470
Increase in/(Reduction of) Bad Debt Expense	1,918,691	(147,373)
Administrative Expenses Paid by Others (Note 14)	705,258	886,482
<i>Total Operating Expenses</i>	223,036,995	233,050,827
Interest Expense, Federal	6,552,054	3,386,994
Impairment Losses	767,316	-
<i>Total Expenses</i>	230,356,365	236,437,821
<i>Net Loss</i>	\$ (3,360,681)	\$ (2,196,838)
<i>Cumulative Results of Operations, Beginning of Year</i>	\$ 15,327,481	\$ 17,524,319
<i>Net Loss</i>	(3,360,681)	(2,196,838)
<i>Cumulative Results of Operations, End of Year</i>	\$ 11,966,800	\$ 15,327,481

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

**Community Development Financial Institutions Fund**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2015 and September 30, 2014**

	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities:</b>		
Net Gain/(Loss)	\$ (3,360,681)	\$ (2,196,838)
Adjustments to Reconcile Net Loss to Net Cash Provided by/(used in) Operations:		
Impairment Losses	767,316	-
Equity in Income of Associates	(30,234)	(1,329)
Amortization Expense	211,869	189,094
Accretion of Discount	(68,239)	(68,237)
Bad Debt Expense (Recovery)	1,918,691	(147,373)
Change in Assets and Liabilities:		
Decrease/(Increase) in Advances and Prepayments	-	258,149
Decrease/(Increase) in Interest and Other Receivables	(15,485)	1,380,662
Increase/(Decrease) in Accounts Payable, Accrued Payroll, & Due to General Fund	707,968	(283,623)
Increase/(Decrease) in Awards Payable	(349,169)	19,391,037
Increase/(Decrease) in Accrued Annual Leave	143,148	(62,652)
	<b>(74,816)</b>	<b>18,458,890</b>
<b>Net Cash Provided by/(used in) Operating Activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Redemption of Investments	\$ 25,000	\$ 25,000
Proceeds from Distribution from Investments	81,564	517,925
Purchases of New Investments	(1,093,929)	-
Internal-use Software in Development	(1,773,000)	(431,707)
Loans Disbursed	(104,292,184)	(52,024,060)
Collection of Loan Principal	6,289,751	3,458,001
	<b>(100,762,798)</b>	<b>(48,454,841)</b>
<b>Net Cash used in Investing Activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Increase/(Decrease) in Unexpended Appropriations, Net	\$ 6,441,820	\$ (12,962,604)
Borrowings from Federal Financing Bank	88,698,478	38,000,000
Borrowing Re-payments to Federal Financing Bank	(1,153,438)	(266,418)
Borrowings from Treasury	19,130,431	19,313,318
Borrowing Re-payments to Treasury	(6,060,129)	(3,498,060)
	<b>107,057,162</b>	<b>40,586,236</b>
<b>Net Cash Provided by Financing Activities</b>		
<b>Net Change in Fund Balance with Treasury</b>	<b>6,219,548</b>	<b>10,590,285</b>
<b>Fund Balance with Treasury, Beginning of Year</b>	<b>241,627,621</b>	<b>231,037,336</b>
<b>Fund Balance with Treasury, End of Year</b>	<b>\$ 247,847,169</b>	<b>\$ 241,627,621</b>

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

**COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND**

Notes to Financial Statements

September 30, 2015 and 2014

# COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

## Notes To Financial Statements

September 30, 2015 and 2014

### **(1) Description of Reporting Entity**

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

The CDFI Fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The CDFI Fund's mission is to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.

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

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

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

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

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

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

September 30, 2015 and 2014

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

#### **(2) Limitations of the Financial Statements**

The financial statements report the financial position, results of operations, changes in net position, and cash flows of the CDFI Fund as of and for the fiscal years ending on September 30, 2015 and 2014, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the CDFI Fund in conformity with accounting principles generally accepted in the United States of America, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

#### **(3) Summary of Significant Accounting Policies**

##### ***(a) Basis of Presentation***

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

##### ***(b) Use of Estimates***

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

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

The CDFI Fund does not maintain cash in commercial bank accounts. The Treasury Department processes cash receipts and disbursements. Fund Balance with Treasury is composed 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 CDFI Bond Guarantee recipients and are recorded at face value on the closing date. Direct and incremental loan costs are deemed to be de minimis. Any interest is recognized over the life of the loan, when earned. Amounts collected on loans receivable are included in cash flows from investing activities in the statements of cash flows.

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

During fiscal years 2015 and 2014, the CDFI Fund received requests from a number of awardees requesting an extension of their maturity dates. The requests were processed in collaboration with the Department of the Treasury Office of the Deputy Chief Financial Officer (DCFO). A restructuring of a loan constitutes a troubled debt restructuring for purposes of FASB ASC-310-40 if the creditor grants a concession to the debtor that it would not otherwise consider. While the loan extensions are being processed, awardees do not make principal payments. The CDFI Fund continues to accrue and collect interest on all loans that are under restructuring subject to determination about eventual collectability.

(e) ***Interest and Other Receivable***

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

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

September 30, 2015 and 2014

(f) ***Investments***

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

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

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

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

**(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 the CDFI Fund’s various programs; and 3) the Community Investment Impact System (CIIS) – a web-based data collection system for CDFIs and CDEs.

The software is amortized using the straight-line method over the estimated useful life ranging from seven to ten years. Amortization expense for the years ended September 30, 2015 and 2014 was \$211,869 and \$189,094, 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 CDFI Fund obtains the estimated annual amount for all operating leases. The CDFI Fund then establishes an obligation to be recorded within the financial system for the full amount of the estimate. The CDFI Fund approves each monthly Intra-governmental Payment and Collection transaction and submits the approved form to the Bureau of the Fiscal Service (BFS) for processing on a monthly basis. Rent payments are recognized on a straight-line basis over the term of the lease.

**(j) *Awards Payable***

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

**(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.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

September 30, 2015 and 2014

Employees hired prior to January 1, 1984, were provided an opportunity to join either FERS and Social Security or remain in CSRS. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2015 and 2014 was \$972,952 and \$858,037, respectively.

For all employees, a Thrift Savings Plan (TSP) account is automatically established, and the employee can have up to a predetermined maximum amount withheld from their base salary, which is deposited into their TSP account. For FERS employees only, the CDFI Fund makes matching contributions ranging from 1% to 4% for employees who contribute to their TSP account (there is no matching contribution for CSRS employees). Additionally a 1% contribution is automatically made to TSP by the CDFI fund for each employee. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2015 and 2014 was \$349,009 and \$335,410, respectively.

In addition, CDFI Fund employees participating in CSRS have 7% of their base salary withheld which is contributed into a Retirement Fund. The CDFI Fund contributes the same amount into the Retirement Fund. The amount of cost recognized by the CDFI Fund for these contributions for the years ended September 30, 2015 and 2014 was \$25,059 and \$38,788, respectively.

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

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

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

September 30, 2015 and 2014

**(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 obligation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The CDFI Fund currently has no contingent liabilities meeting the disclosure or recognition thresholds.

**(o) Revenue and Other Income**

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

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

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

**(p) Tax Status**

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

**(q) Fair Value Measurements**

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the CDFI Fund has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

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

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

**(4) Fund Balance with Treasury**

Fund Balance with Treasury as of September 30, 2015 and 2014 consisted of the following components:

	<u>2015</u>	<u>2014</u>
Available	\$ 8,889,698	\$ 15,515,342
Obligated	229,540,747	215,335,049
Expired	<u>9,416,724</u>	<u>10,777,230</u>
	<u>\$ 247,847,169</u>	<u>\$ 241,627,621</u>

Fund Balance with Treasury includes appropriated and borrowed funds available to pay liabilities and to finance authorized award and purchase commitments. The expired funds reflect appropriated funds that are no longer available for obligation, but can be used to pay liabilities; expired funds cancel after 5 years.

**(5) Loans Receivable**

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

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

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

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

The CDFI Fund's loan portfolio as of September 30, 2015 and 2014, delineated by delinquency category is as follows:

As of September 30, 2015

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

As of September 30, 2014

	<u>30-60 Days Past Due</u>	<u>61-90 Days Past Due</u>	<u>Greater than 90 Days Past Due</u>	<u>Current</u>	<u>Total Financing Receivables</u>
General Recourse	\$ 95,461	\$ -	\$ 736,870	\$ 64,478,310	\$ 65,310,641
Asset-backed	-	-	-	37,733,582	37,733,582
	<u>\$ 95,461</u>	<u>\$ -</u>	<u>\$ 736,870</u>	<u>\$ 102,211,892</u>	<u>\$ 103,044,223</u>
Less Allowance for Bad Debt					9,256,986
Total					<u>\$ 93,787,237</u>

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

Gross loans receivable in nonperforming status as of September 30, 2015 and 2014 are \$1,455,389 and \$829,331, respectively.

The activity in the allowance for bad debt by loan type in fiscal years 2015 and 2014 is as follows:

As of September 30, 2015

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

As of September 30, 2014

	<u>Beginning Balance</u>	<u>Write-offs</u>	<u>Recoveries</u>	<u>Provision</u>	<u>Ending Balance</u>
General Recourse	\$9,404,359	\$ -	\$ -	\$ (147,373)	\$ 9,256,986
Asset-backed	-	-	-	-	-
	<u>\$9,404,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (147,373)</u>	<u>\$ 9,256,986</u>

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

The allowance for bad debt attributable to loans individually evaluated for impairment and loans collectively evaluated for impairment as of September 30, 2015 and 2014 is as follows:

As of September 30, 2015

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

As of September 30, 2014

	<u>Loans Individually Evaluated for Impairment</u>	<u>Loans Collectively Evaluated for Impairment</u>	<u>Allowance for Individually Evaluated Impaired Loans</u>	<u>Allowance for Collectively Evaluated Impaired Loans</u>	<u>Total Allowance</u>
General Recourse	\$ 65,310,641	\$ -	\$ 9,256,986	\$ -	\$ 9,256,986
Asset-backed	37,733,582	-	-	-	-
	<u>\$ 103,044,223</u>	<u>\$ -</u>	<u>\$ 9,256,986</u>	<u>\$ -</u>	<u>\$ 9,256,986</u>

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

At September 30, 2015 and 2014 impaired loans with and without a related allowance are as follows:

As of September 30, 2015

Impaired Loans for which there is a related allowance:

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

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

As of September 30, 2014

Impaired Loans for which there is a related allowance:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
General Recourse	\$ 3,982,331	\$ 3,982,331	\$ 2,545,931	\$ 3,982,331	\$ 34,939
Asset-backed	-	-	-	-	-
	<u>\$ 3,982,331</u>	<u>\$ 3,982,331</u>	<u>\$ 2,545,931</u>	<u>\$ 3,982,331</u>	<u>\$ 34,939</u>

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

During the years ended September 30, 2015 and 2014 the CDFI Fund recognized interest income related to impaired loans of \$96,951 and \$34,939, respectively. The CDFI Fund recognizes interest income on impaired loans as earned in accordance with loan agreements.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

September 30, 2015 and 2014

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

As of September 30, 2015 the CDFI Fund had a total recorded investment of 4 impaired loans from General Recourse TDRs of \$1,768,139 of which \$1,768,139 had a related allowance for bad debt of \$1,581,659. As of September 30, 2014 the CDFI Fund had a total recorded investment of 3 impaired loans from General Recourse TDRs of \$995,461 of which \$995,461 had a related allowance for bad debt of \$813,061. There were no CDFI Bond Guarantee Program TDRs as of September 30, 2015 or 2014.

For the years ended September 30, 2015 and 2014, grants in the amount of \$7,930,000 and \$10,202,335 respectively, were disbursed to debtors owing receivables whose terms have been modified in TDRs. As of September 30, 2015 and 2014, there were commitments in the amount of \$5,337,402 and \$8,380,000 respectively to disburse grants to debtors owing receivables whose terms have been modified in TDRs.

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

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

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

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

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

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

The credit quality indicators for loans receivable as of September 30, 2015 and 2014 were as follows:

As of September 30, 2015

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

As of September 30, 2014

	<u>Pass</u>	<u>Likely</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
General Recourse	\$29,522,015	\$ 31,806,295	\$3,150,000	\$832,331	\$ 65,310,641
Asset-backed	37,733,582	–	–	–	37,733,582
	<u>\$67,255,597</u>	<u>\$ 31,806,295</u>	<u>\$3,150,000</u>	<u>\$832,331</u>	<u>\$103,044,223</u>

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

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**(6) Amortized Cost Method Investments**

The carrying amount, net of applicable discounts, gross unrealized holding losses and fair value of held-to-maturity debt securities by major security type at September 30, 2015 and 2014 are as follows:

	Aggregate Fair Value	Gross Unrealized Loss	Amortized Cost (Net Carrying Amount)
Investments, Held-to-Maturity at September 30, 2015:			
Convertible debt securities	\$ 563,721	\$ -	\$ 563,721
Secondary capital securities	2,131,045	-	2,131,045
Total	\$ 2,694,766	\$ -	\$ 2,694,766
Investments, Held-to-Maturity at September 30, 2014:			
Convertible debt securities	\$ 544,618	\$ -	\$ 544,618
Secondary capital securities	2,106,909	-	2,106,909
Total	\$ 2,651,527	\$ -	\$ 2,651,527

Maturities of debt securities classified as held-to-maturity were as follows at September 30, 2015:

	Fair Value	Net Carrying Amount
Held-to-Maturity:		
Due after one through five years	800,000	800,000
Due after five through ten years	1,331,045	1,331,045
Due after ten years	563,721	563,721
	\$ 2,694,766	\$ 2,694,766

The CDFI Fund evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Significant factors considered include investee audit opinions, regulatory findings and trends in various financial criteria. Based on this evaluation, the CDFI Fund recognized no other-than-temporary impairment losses of these investments in 2015 or 2014.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

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Convertible debt securities consist of non-interest bearing convertible subordinated debentures. As of September 30, 2015 and 2014, this category consists of one debenture of \$2 million notional amount (amortized cost of \$563,721 and \$544,618 as of September 30, 2015 and 2014, respectively) 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; 9/14/20 and 4/9/22 respectively.

**(7) Fair Value Measurements**

**(a) Fair Value of Financial Instruments**

The following table presents the carrying amounts and estimated fair values of the CDFI Fund's financial instruments at September 30, 2015 and 2014. 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.

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Fund Balance with Treasury	\$ 247,847,169	\$ 247,847,000	\$ 241,627,621	\$ 241,628,000
Loans receivable	189,870,979	116,966,000	93,787,237	65,576,000
Investments, amortized cost	2,694,766	2,695,000	2,651,527	2,652,000
Investments, cost method	13,881,383	27,536,000	13,554,770	24,162,000
Interest and other receivable	492,540	493,000	477,057	477,000
Financial liabilities:				
Awards payable	19,590,783	19,591,000	19,939,952	19,940,000
Debt	191,814,231	110,890,000	91,198,888	58,575,000

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

Fund Balance with Treasury, interest and other 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.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

### Notes To Financial Statements

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

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

#### **(b) Fair Value Hierarchy**

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

There were no assets measured at fair value on a nonrecurring basis in 2015 or 2014 that were still on the balance sheet at year end.

#### **(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 \$13,881,383 and \$13,554,770 at September 30, 2015 and 2014, respectively. All securities were evaluated for impairment. The measurement of impairment is fair value and net equity was evaluated for sufficiency to cover preferred interest if liquidation occurred. The evaluation identified one investment that was determined to be other than temporarily impaired and was written down during fiscal year 2015 totaling, \$767,316.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

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**(9) Equity Method Investments**

Investments accounted for under the equity method consist of a Class B limited partnership interest in Sustainable Jobs Fund, LP (12%), an interest in Pacific Community Ventures Investment Partners II (7%) and a non-voting redeemable transferable interest in BCLF Ventures II, LLC (18%). Equity method investments totaled \$1,103,333 and \$1,154,662 at September 30, 2015 and 2014, respectively.

**(10) Due to the General Fund**

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

Due to the General Fund represents a liability to reflect assets owed by the CDFI Fund to the General Fund. These liabilities are separately reported on the Balance Sheet, with a corresponding amount reported in Interest and other receivable. The General Fund liabilities include penalty and late fees due to delinquent loans totaling \$40,000 and \$16,620 at September 30, 2015 and 2014, respectively.

**(11) Debt and Other Borrowings**

Debt consists of amounts borrowed from the Treasury Department and its components and included the following activity for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 91,198,888	\$ 37,650,048
New borrowings	107,828,909	57,313,318
Repayments	<u>(7,213,566)</u>	<u>(3,764,478)</u>
Ending balance	<u>\$ 191,814,231</u>	<u>\$ 91,198,888</u>

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Payments to the Treasury Department are due on September 30 of each year of maturity. Principal payments that include direct loans and total principal payments for the bond guarantees on this debt as of September 30, 2015 are as follows:

<u>Fiscal Year</u>	<u>Principal Payments</u>
2016	\$ 8,817,552
2017	8,768,781
2018	13,117,921
2019	16,661,049
2020	8,371,895
Later years, through 2045	<u>145,072,588</u>
Total	\$ <u>200,809,786</u>

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

During fiscal year 2014, the CDFI Fund borrowed \$57,313,318 for new loans, This included \$38,000,000 for BGP loans, \$766,600 for BGP downward subsidy reestimate, \$10,025,870 for direct loans, \$8,133,861 for direct loan downward subsidy reestimate, and \$386,987 to meet annual interest payments due to the Treasury Department, at interest rates ranging from 1.92% to 6.36%, depending on maturity dates or risk categories.

Interest paid in cash for the years ended September 30, 2015 and 2014 was \$6,552,054 and \$3,386,994 respectively.

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

The CDFI Fund has permanent indefinite borrowing authority of \$448,124,479 to fund instruments issued under the Bond Guarantee Program as of September 30, 2015.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

September 30, 2015 and 2014

**(12) Commitments**

**(a) Operating Leases**

The CDFI Fund leases office space and equipment in Washington, D.C. under the terms of an implicit operating lease between the General Services Administration and Eleven Eighteen Limited Partnership which expires in March, 2019. The total operating lease expense was \$1,114,785 and \$914,218 for the years ended September 30, 2015 and 2014, respectively.

Future minimum payments due under these operating leases as of September 30, 2015 were as follows:

<u>Fiscal Year</u>	<u>Minimum lease payments</u>
2016	\$ 1,114,785
2017	1,114,785
2018	1,114,785
2019	<u>1,114,785</u>
	<u>\$ 4,459,140</u>

**(b) Award, Purchase and Bond Guarantee Program Commitments**

As of September 30, 2015 and 2014, unfilled award commitments amounted to \$201,937,822 and \$195,452,980 respectively. Award commitments relate to CDFI Program and NACA Program awards which were approved by CDFI Fund management but not disbursed as of the end of the year. These award commitments are not considered liabilities at year-end because the awardees have not met the conditions required for payment. Award commitments pertaining to the BEA Program of \$18,131,544 and \$17,941,818 as of September 30, 2015 and 2014, respectively, represent expenditures incurred by awardees for which the CDFI Fund will reimburse the awardee through a grant award and are excluded from these amounts since they are reflected as liabilities on the CDFI Fund's balance sheet. Award commitments pertaining to CDFI Program of \$1,459,239 and \$1,998,134 as of September 30, 2015 and 2014, respectively, are also reflected as liabilities as these awardees have met the conditions required for payment.

Purchase commitments of \$13,153,951 and \$10,930,197 as of September 30, 2015 and 2014, respectively, relate to the unexpired portion of contracts, and purchase orders relating to goods and services not yet received.

As of September 30, 2015 and 2014, Bond Guarantee Program commitments for related direct loan disbursements amounted to \$725,301,522 and \$487,000,000 respectively. Actual disbursement is subject to borrowers satisfying certain conditions.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Notes To Financial Statements

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**(13) Unexpended Appropriations**

Unexpended appropriations for the years ended September 30, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Beginning unexpended appropriations	\$ 225,408,376	\$ 238,370,980
Appropriations received	230,500,000	226,000,000
Appropriations for Subsidy Reestimate	1,975,130	582,870
Appropriations cancelled	(1,511,982)	(400,809)
Appropriations expended	(220,339,388)	(230,244,204)
Downward Subsidy Reestimate Adjustment	(4,181,940)	(8,900,461)
Change in unexpended appropriations	6,441,820	(12,962,604)
Ending unexpended appropriations	\$ 231,850,196	\$ 225,408,376

**(14) Imputed Financing**

Imputed financing represents specific expenses relating to the CDFI Fund paid for by another Federal organization. The components of imputed financing include pension costs for CSRS and FERS retirement plans, Health Benefits Program costs, Group Life Insurance Program costs and audit fees. Imputed financing expenses for the years ended September 30, 2015 and 2014 were \$705,258 and \$886,482 respectively.

**(15) Administrative Expenses**

Administrative expenses consist of the following for the years ended September 30, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Personnel compensation and benefits	\$ 10,780,896	\$ 10,580,658
Travel	66,063	28,718
Rent, communications, utilities and miscellaneous charges	1,114,785	1,458,503
Contractual services with other agencies	4,556,009	5,493,717
Contractual services with non-federal parties	8,473,315	6,500,941
Information technology systems maintenance	28,650	25,048
Amortization	211,869	189,094
Supplies and printing	20,879	94,798
Other	—	2,992
Total	\$ 25,252,466	\$ 24,374,470

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

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**(16) Related Party Transactions**

The CDFI Fund has Interagency agreements with the Treasury Department. As of September 30, 2015 and 2014, these related party expenses amounted to \$6,538,766 and \$6,487,773, respectively.

Expenses were recorded as follows for fiscal years 2015 and 2014: Interagency Agreements with Departmental Offices (DO) for financial management services, conference and events, postage, human resources services, and Working Capital Fund shared IT services for the amount of \$2,034,925 and \$2,490,262 for fiscal years 2015 and 2014, respectively. An Interagency Agreement with the BFS for accounting services, e-Travel and Prism for the amount of \$1,882,771 and \$1,702,805 for fiscal years 2015 and 2014, respectively. An Interagency Agreement with Alcohol and Tobacco Tax and Trade Bureau for IT services for the amount of \$2,642,638 and \$2,185,713 for fiscal years 2015 and 2014, respectively. An Interagency Agreement with Office of Financial Stability (OFS) for personnel for the amount of \$(21,568) and \$109,713 for fiscal years 2015 and 2014, respectively.

**(17) Subsequent Events**

The CDFI Fund has evaluated subsequent events from the date of statements of financial position through November 12, 2015, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

# Appendix A: Glossary of Acronyms

## A

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

## B

**BEA** – Bank Enterprise Award  
**BGP** – Bond Guarantee Program

## C

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

## E

**ETA** – Electronic Transfer Accounts

## F

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

## G

**GMLoB** – Grants Management Line of Business

## H

**HFFI-FA** – Healthy Food Financing Initiative – Financial Assistance Program

**I**

**IDA** – Individual Development Accounts

**ILR** – Institution Level Report

**IPERA** – Improper Payments Elimination and Recovery Act

**IPIA** – Improper Payments Information Act of 2002

**N**

**NACA Program** – Native American CDFI Assistance Program

**NMTC** – New Markets Tax Credit

**NOFA** – Notice of Funding Availability

**O**

**OCFO** – Office of the Chief Financial Officer

**OFM** – Office of Financial Management

**OIG** – Office of Inspector General

**OMB** – U.S. Office of Management and Budget

**P**

**PAR** – Performance and Accountability Report

**Q**

**QALICB** – Qualified Active Low-Income Community Business

**QEI** – Qualified Equity Investment

**QLICI** – Qualified Low-Income Community Investment

**S**

**SECA** – Small and Emerging CDFI Assistance

**T**

**TA** – Technical Assistance

**TLR** – Transaction Level Report



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