

STATE OF CONNECTICUT

**AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 1999 AND 2000**

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

TABLE OF CONTENTS

INTRODUCTION	1
Scope of Audit	1
COMMENTS	
Foreword.....	2
Board of Directors and Administrative Officials.....	2
Résumé of Operations.....	3
CONDITION OF RECORDS	6
RECOMMENDATIONS	7
CONCLUSION	8

August 28, 2001

**AUDITORS' REPORT
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We have made an examination of the books, records and accounts of the Community Economic Development Fund (CEDF), as provided in Section 2-90 of the General Statutes, for the Calendar years ended December 31, 1999 and 2000.

Scope of Audit:

The CEDF was created pursuant to Public Act 93-404, subsequently codified as Sections 8-240k through 8-240n of the General Statutes. In accordance with Section 8-240n, the CEDF has issued financial statements as part of its annual reports. These financial statements were subsequently audited by independent public accounting firms. After having reviewed the reports and work of the outside firms and having satisfied ourselves as to the firms' independence, professional reputation, and qualifications, we have relied on those financial audits, in addition to internal control documentation. We have limited our examination to such procedures as reviewing selected internal controls and adherence to various statutory requirements. This report on our examination consists of the "Comments" and "Recommendations" which follow.

COMMENTS

Foreword:

The purposes of the CEDF are to coordinate, fund and implement investment in community development in targeted neighborhoods, provide access for borrowers to existing public and private lending and development programs, provide technical assistance, and preserve public dollars by leveraging private capital for community investment. These activities are to take place in Public Investment Communities and Targeted Investment Communities: Public Investment Communities are municipalities requiring financial assistance to offset their service burdens; and, Targeted Investment Communities means a municipality which contains an enterprise zone. Not less than seventy per cent of the financial assistance available to CEDF shall be used for activities in Targeted Investment Communities.

The CEDF is comprised of three separate legal entities. The CEDF Foundation (hereafter the “Foundation”) is a non-profit organization originally capitalized with \$10,000,000 in State of Connecticut funds with a board of directors determined in accordance with CEDF’s authorizing legislation. The Foundation is primarily responsible for providing technical assistance to small businesses and to neighborhoods seeking to develop a comprehensive community development plan.

The Community Economic Development Fund Corporation (hereafter the “Corporation”), a for-profit corporation, is a wholly-owned subsidiary of the CEDF Foundation. The Corporation has a board of directors consisting of 15 individuals appointed by the Foundation. Capitalized with \$7,000,000 of State funds from the Foundation, the Corporation underwrites and services loans to small businesses and mixed-use properties located in targeted communities and continues to develop financing programs to fill gaps identified in the traditional lending community.

The Corporation has invested \$1,500,000 in the Community Economic Development Fund 1, LLC (hereafter the “LLC”). The LLC is a limited liability company with nine members. In addition to the Foundation, the LLC is comprised of eight major financial institutions, each of which has invested into the program. The Corporation manages the LLC’s \$9.5 million loan pool and records the loans that it underwrites in the LLC. The LLC does not have any staff, as all of its activity and management are performed by the Corporation.

Board of Directors and Administrative Officials:

In accordance with Section 8-240l, the CEDF Foundation shall be governed by a Board of Directors, with five of the members being representatives of State agencies or quasi-public agencies, appointed by the Governor; one member appointed by each investor that has committed money to the program; and six members being “persons of low or moderate-income housing residing in public investment communities or targeted investment communities or representatives of nonprofit organizations the primary purpose of which is to serve low and moderate income, unemployed or underemployed residents of targeted neighborhoods, except that such members shall comprise not less than one third of the membership”.

The Board of Directors is authorized to appoint the additional members. A list of the Board members as of December 31, 2000, was as follows:

Public Members:

John P. Burke, Treasurer	Commissioner of the Department of Banking
Michael Lettieri	Dept. of Economic and Community Development
John Lobon, Vice Chair	Connecticut Development Authority
John Mengacci	Office of Policy and Management
Michael Regan	Department of Economic and Community Development

Private Members:

David Berey
Don Fournier
Carol Heller
Gary King
Steve Litchfield
Robert Mantilia, Chair
Thomas H. O'Brien, Jr.
Paul Truglio

Community Members:

Robert Burgess
Alta Lash, Secretary
Angel Fernandez-Chavero
Marie Hawe
Julio Mendoza
Theodore Montgomery
Reverend Richard Shuster
George Scott

The chief executive officer (President) of the Foundation is appointed by the Board. Donna Wertenbach has served as the President since December 1997.

RÉSUMÉ OF OPERATIONS:

CEDF Foundation and Corporation:

Based on CEDF's audited financial statements, the following is a summary of the revenues and expenditures of the consolidated CEDF Foundation and Corporation, including the ownership portion of the Corporation's investment in the CEDF LLC:

	<u>2000</u>	<u>1999</u>
Revenues	\$ 1,278,485	\$ 901,373

Auditors of Public Accounts

Expenditures and taxes	1,011,049	933,373
Equity in loss of LLC	<u>8,065</u>	<u>50,370</u>
Excess (Deficiency) of Revenues over Expenditures	259,371	(82,370)
Fund balance, beginning of year	<u>8,897,864</u>	<u>8,980,234</u>
Fund balance, end of year	\$ <u>9,157,235</u>	\$ <u>8,897,864</u>

Revenues were derived primarily from investment income, donations/grants and a management fee charged to the LLC by the Corporation. The increase in revenues was primarily due to increases in grants received from a number of financial, State and other organizations and donations received under the Neighborhood Assistance Act Tax Credit Program. Also, there was a net increase in the fair value of investments of \$125,803 between 1999 and 2000. The increase in expenses between the two periods resulted from increases in salaries and related expenses and grants and contributions made to other community development organizations.

CEDF LLC:

Below is a summary of loan activity for the years under review. More loan application packages were mailed out during the period ended December 31, 2000 than in the previous period but fewer completed applications were received. In addition, 5 loans that had been approved were not booked prior to December 31, 2000. The total outstanding loans for the periods ending December 31, 1999 and 2000 were \$5,718,309 and \$5,194,718, respectively.

<u>Year</u>	<u>Loans Closed</u>	<u>Value of Loans</u>	<u>Loans Outstanding</u>
1999	28	\$ 2,897,972	66
2000	15	1,115,000	62

A summary of the allowance for loan losses during the audited period is as follows:

	<u>2000</u>	<u>1999</u>
Balance at beginning of year	\$ 834,000	\$ 547,218
Add: Provision charged to expense	500,811	625,599
Less: Loans charged off, net of recoveries	<u>(705,288)</u>	<u>(338,817)</u>
Balance at end of year	\$ <u>629,523</u>	\$ <u>834,000</u>

Other Examinations:

As previously noted, independent public accountants audited the Community Economic Development Fund during our audited period.

Those auditors attested that, the consolidated financial statements presented fairly, in all material respects, the consolidated financial position of the Community Economic Development Fund Foundation, Inc. and subsidiary for the years under review, and the results of their operations and their cash flows for those years in conformity with generally accepted accounting principles.

CONDITION OF RECORDS

There were no recommendations developed as a result of this audit examination.

RECOMMENDATIONS

Our prior report covering the 1997 and 1998 calendar years contained two recommendations. Both have been implemented or otherwise resolved as described below.

Prior Audit Recommendations:

- CEDF should attempt to devise ways to obtain and present the necessary data for the preparation of annual reports or consider proposing legislative changes that will clarify the reporting requirements. We regard this recommendation as substantially resolved and it will not be repeated.
- CEDF should seek clarification from the Department of Revenue Services as to the availability of a sales tax exemption for the CEDF Foundation and Corporation. CEDF reported that they had discussions with their attorneys, independent auditors and the Department of Revenue Services. It was their understanding that the Foundation was exempt from sales tax while the Corporation was uncertain. CEDF has taken steps to ensure that its larger purchases are reviewed to determine which of its component units benefits from the transaction. For those purchases made for the benefit of the Foundation, the sales tax exemption is utilized. Purchases that benefit both the tax exempt Foundation and the non-exempt Corporation are analyzed in order to apply the allocable sales tax exemption. CEDF has taken other steps to reduce the tax exposure of the Corporate Component by transferring excess capitalization back to the Foundation. This recommendation has been resolved.

Current Audit Recommendations:

There were no recommendations developed as a result of this audit examination.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Community Economic Development Fund during the course of our examination.

Michael R. Adelson
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts