

STATE OF CONNECTICUT

**AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 2001, 2002 AND 2003**

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

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September 1, 2004

**AUDITORS' REPORT
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CALENDAR YEARS 2001, 2002 AND 2003**

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 2001, 2002 and 2003.

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 the independent public accounting firm of Scillia, Dowling and Natarelli, LLC. After having reviewed the reports and work of the independent public accounting firm and having satisfied ourselves to the firm's independence, professional reputation, and qualifications, we have relied on these 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. Through September 2003 these activities took place in Public Investment Communities and Targeted Investment Communities that had income levels below the state averages; Public Investment Communities are municipalities requiring financial assistance to offset their service burdens; and, Targeted Investment Communities are municipalities that contain enterprise zones. Effective October 1, 2003, Public Act No. 03-93 expanded CEDF's services to low and moderate-income borrowers in all Connecticut communities. At least seventy percent 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 twenty-four-member board of directors as determined by statute. The Foundation is primarily responsible for providing technical assistance to small businesses and to neighborhoods seeking to develop comprehensive community development plans.

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 an eighteen-member board of directors appointed by the Foundation. Originally capitalized with \$7,000,000 in State of Connecticut 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 "LLC"). The LLC is a limited liability company with thirteen members. In addition to the Foundation, the LLC is comprised of twelve financial institutions, each of which has invested into the program. The Corporation manages the LLC's \$9.7 million loan pool and records the loans that it underwrites in the LLC. The LLC does not have any staff, as the Corporation performs all of its activity and management.

Board of Directors and Administrative Officials:

In accordance with Section 8-240l of the General Statutes, the CEDF Foundation shall be governed by a statewide board of directors. There are three classes on the board of directors. The classes are the Public Investment Class, the Private Investment Class and the Community Investment Class. The Governor appoints the five board members of the Public Investment Class. This class represents relevant State agencies and quasi-public agencies. Each investor that committed at least \$1 million to the overall program appoints a member to the Private Investment Class. The Community Investment Class members are persons of low or moderate incomes residing in the public investment communities or targeted investment communities and they are appointed by the General Assembly leadership. The Board of Directors is authorized to appoint any additional members.

As of December 31, 2003, the following were members of the Board of Directors:

Public Members:

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

Private Members:

Robert Mantilia, Chair
Gary King
Paul Truglio
Stephen Hudd
David Berey
Steve Litchfield
Bill Samuelson
Carol J. Heller

Community Members:

Bob Burgess
Alta Lash, Secretary
Theodore Montgomery
George Scott
Eva A. Maldonado
Cornell Wright, Chair
Marie Hawe
Angel Fernandez-Chavero
Julio Mendoza

Auditors of Public Accounts

Charles E. Hoffler
Barbara Rawls Ivy

The Board of Directors appoints the President of the Foundation. Donna Wertenbach has served in this capacity during the period under examination.

RÉSUMÉ OF OPERATIONS:

CEDF FOUNDATION AND CORPORATION:

Based on the audited financial statements of the CEDF, 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, is presented below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	\$	\$	\$
Revenues	1,093,555	1,218,071	1,249,980
Expenditures and taxes	1,049,425	1,198,086	1,239,974
Equity in income of LLC	3,224	12,380	8,775
Unrealized gains (losses) on			
Investments available for sale	-	333,051	(77,157)
Change in temporarily restricted			
Net assets	<u>-</u>	<u>129,000</u>	<u>(1,240)</u>
Change in net assets	47,354	494,415	(59,616)
Net assets, beginning of year	<u>9,157,235</u>	<u>9,204,589</u>	<u>9,685,855</u>
Net assets, end of year	<u>\$9,204,589</u>	<u>\$9,699,004</u>	<u>\$9,626,239</u>

Revenues were primarily from investment income, donations/grants and management fees 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. The increase in expenditures was primarily due to increases in salaries and related expenses.

CEDF LLC:

A summary of the loan activity for the calendar years under review is presented below. Loan application packages mailed out increased by approximately twenty two percent from calendar year 2001 to calendar year 2003. However, completed loan applications received increased by approximately eighty one percent. The primary reasons for this increase were the addition of a micro loan technical assistance analyst, the establishment of a segmented Norwalk-Stamford loan pool program and general economic conditions that restricted loans from banks. The total loans outstanding for calendar years ending December 31, 2001, 2002 and 2003 were \$5,189,428, \$7,045,233 and \$9,420,187, respectively.

<u>Year</u>	<u>Loans Closed</u>	<u>Value of Loans</u>	<u>Loans Outstanding</u>
2001	36	\$ 1,545,750	75
2002	42	3,589,500	94
2003	46	2,712,762	119

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Balance at beginning of year	\$ 629,523	\$ 773,261	\$ 1,004,221
Plus: Provision charged to expense	506,376	440,333	318,013
Less: Loans charged off, net of recoveries	<u>(362,638)</u>	<u>(209,373)</u>	<u>(192,389)</u>
Balance at end of year	<u>\$ 773,261</u>	<u>\$ 1,004,221</u>	<u>\$ 1,129,845</u>

Other Examinations:

The independent public accounting firm of Scillia, Dowling and Natarelli, LLC audited the Community Economic Development Fund for the period under examination. 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 examination, and the results of their operations and their cash flows for those years in conformity with generally accepted accounting principles generally accepted in the United States of America.

CONDITION OF RECORDS

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

RECOMMENDATIONS

Prior Audit Recommendations:

There were no recommendations developed for the prior report that covered the calendar years 1999 and 2000.

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 courtesies and cooperation shown to our representatives of the Community Economic Development Fund during the course of our examination.

Wendell M. Hinds
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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