

STATE OF CONNECTICUT



*AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 2004, 2005 AND 2006*

AUDITORS OF PUBLIC ACCOUNTS
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September 2, 2009

**AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 2004, 2005 AND 2006**

We have made an examination of the books, records and accounts of the Community Economic Development Fund (CEDF), as provided in Section 7-396a of the General Statutes, for the Calendar years 2004, 2005 and 2006.

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 an independent public accounting firm. 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" 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.

Public Act 06-166, effective July 1, 2006, established a pilot microloan program for new and existing businesses of 10 or fewer employees with annual gross revenue of less than \$500,000. The Commissioner of Economic and Community Development was to make a grant to the CEDF to support the growth and development of such microenterprises.

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, 2006, the following were members of the Board of Directors:

Public Members:

| | |
|--------------------------|--|
| John P. Burke, Treasurer | Department of Banking |
| Holly Campo De La Vera | Department of Economic and Community Development |
| Susan Hamilton | Office of Policy and Management |
| Michael Lettieri | Department of Economic and Community Development |
| John Lobon, Vice Chair | Connecticut Development Authority |

Private Members:

Timothy Coppage
Jean Ferris
Kim Healey
Stephen Hudd, Chair
Walter Kaercher
Steven Litchfield
Brandyn Perdelwitz
William Samuelson

Community Members:

Laura Berry
William Callion, Jr.
Beverly Goulet
Charles Hoffler
David Kovacs
Alta Lash, Secretary
Theodore Montgomery

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:

Summary of Revenues and Expenditures:

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>2006</u> | <u>2005</u> | <u>2004</u> |
|--|----------------------------|---------------------------|---------------------------|
| | \$ | \$ | \$ |
| Revenues | 1,590,732 | 1,572,688 | 1,484,178 |
| Expenditures and taxes | 1,584,053 | 1,567,027 | 1,461,205 |
| Loan funding grant from DECD | 726,592 | 535,000 | - |
| Equity in income of LLC | 50,052 | 12,372 | 3,444 |
| Unrealized gains (losses) on investments available for sale | (24,152) | (153,545) | (139,596) |
| Change in temporarily restricted net assets | <u>86,484</u> | <u>620</u> | <u>(36,263)</u> |
| Change in net assets | 845,655 | 400,108 | (149,442) |
| Net assets, beginning of year | <u>9,890,054</u> | <u>9,489,946</u> | <u>9,639,388</u> |
| Net assets, end of year | <u>\$10,735,709</u> | <u>\$9,890,054</u> | <u>\$9,489,946</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. The increase in expenditures was primarily due to increases in salaries and related expenses.

Summary of Lending Activity:

A summary of the loan activity for the calendar years under review is presented below:

| | <u>CEDF Foundation</u> | | <u>CEDF LLC</u> | |
|------|----------------------------|-----------------------|-------------------------|-----------------------|
| | <u>Loans Closed</u> | <u>Loan Value</u> | <u>Loans Closed</u> | <u>Loan Value</u> |
| 2004 | 17 | \$391,000 | 32 | \$2,448,000 |
| 2005 | 21 | \$407,600 | 41 | \$2,761,000 |
| 2006 | 17 | \$480,040 | 54 | \$3,933,572 |

Loans outstanding (net of allowance for loan losses) as of the calendar years ending December 31, 2004, 2005 and 2006 were \$7,493,376, \$8,832,882 and \$9,435,206, respectively. The corresponding original commitment amounts of these loans were \$10,476,124, \$12,276,310 and \$12,955,316, respectively.

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

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|---------------------|
| Balance at beginning of year | \$ 1,400,701 | \$ 1,347,404 | \$ 1,199,796 |
| Plus: Provision charged to expense | 516,190 | 448,105 | 462,000 |
| Less: Loans charged off, net of recoveries | <u>(314,661)</u> | <u>(394,808)</u> | <u>(314,392)</u> |
| Balance at end of year | <u>\$ 1,601,870</u> | <u>\$ 1,400,701</u> | <u>\$ 1,347,404</u> |

Other Examinations:

The independent public accounting firm of Sawicki and Lombardozzi, 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 audit findings 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 2001, 2002 and 2003.

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.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts