

STATE OF CONNECTICUT



*AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 2007 AND 2008*

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

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February 14, 2011

**AUDITORS' REPORT
COMMUNITY ECONOMIC DEVELOPMENT FUND
CALENDAR YEARS 2007 AND 2008**

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 2007 and 2008.

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, Condition of Records, 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 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. CEDF has received a \$50,000 payment from the Department of Economic and Community Development 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 \$5,200,000 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 a total of 20 financial and non-financial institutions, each of which has invested into the program. The Corporation manages the LLC's 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, 2008, the following were members of the Board of Directors:

Public Members:

Ronald F. Angelo	Department of Economic and Community Development
Joseph Harpie	Connecticut Development Authority
Michael Lettieri	Department of Economic and Community Development
John Mengacci	Office of Policy and Management
Howard F. Pitkin, Vice Chair	Department of Banking

Private Members:

Timothy H. Coppage
Jean W. Ferris
Kim A. Healey
Steven J. Hudd, Chair
Walter Kaercher
Steven M. Litchfield
Brandyn Perdelwitz
William Samuelson, Treasurer

Community Members:

William S. Callion, Jr.
Beverly J. Goulet
Ellen Graber-Donohue
Bonita Grubbs
Charles E. Hoffler
Alta Lash, Secretary
Theodore S. Montgomery
Don N. Sardilli

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>2008</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$
Revenues	2,119,210	2,026,992	1,590,732
Expenditures and taxes	2,006,077	1,758,268	1,584,053
Loan funding grant from DECD	361,172	381,736	726,592
Equity in income of LLC	27,585	119,718	50,052
Unrealized gains (losses) on investments available for sale	(321,256)	(61,754)	(24,152)
Change in temporarily restricted net assets	164,642	(66,484)	86,484
Change in net assets	345,276	641,940	845,655
Net assets, beginning of year	11,377,649	10,735,709	9,890,054
Net assets, end of year	<u>\$ 11,722,925</u>	<u>\$ 11,377,649</u>	<u>\$ 10,735,709</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 donations and management fees. The increase in expenditures was primarily due to increases in salaries and related expenses.

Summary of Lending Activity:

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

	<u>Loans Closed</u>	<u>Loan Value</u>
2007	40	\$312,964
2008	38	\$314,994

Loans outstanding (net of allowance for loan losses) as of the calendar years ending December 31, 2007 and 2008 were \$645,079 and \$607,774, respectively.

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 172,791	\$ 225,126
Plus: Provision charged to expense	30,000	70,121
Less: Loans charged off, net of recoveries	(23,295)	(122,456)
Balance at end of year	<u>\$ 179,496</u>	<u>\$ 172,791</u>

Other Examinations:

The independent public accounting firm of Whittlesey and Hadley, P.C. 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.

Included under the same covers as the financial statements mentioned above were reports in accordance with OMB Circular A-133 and reports in accordance with the State Single Audit Act. The auditors noted in the Reports in Accordance with OMB Circular A-133, two significant deficiencies in internal control over financial reporting for the calendar year ended 2007. In the first instance, grant funds were not forwarded to an affiliated organization by December 31, 2007. In the second instance, it was noted that the reconciliation process did not take into account all balance sheet accounts. These deficiencies were not material weaknesses, however. The auditors also noted in the Reports in Accordance with the State Single Audit Act an instance of noncompliance with those requirements which is required to be reported in accordance with the Act. This instance of noncompliance involved quarterly reports that were not filed with the Department of Economic and Community Development in a timely manner. This instance of noncompliance was not a material weakness, however. None of these three matters were repeated in the next year.

The auditors noted in the Reports in Accordance with the State Single Audit Act for the calendar year ended 2008, an instance of noncompliance with those requirements which is required to be reported in accordance with the Act. It was noted that a portion of a loan pool fund was not properly segregated in a separate restricted fund. This instance of noncompliance was not a material weakness, however.

At the time of our review, the auditors' report for the calendar year ended 2009 was not available.

CONDITION OF RECORDS

Our review of the Community Economic Development Fund's records revealed the following area that required improvement.

Directors' Attendance at Board Meetings:

Criteria: Governing bodies such as boards of directors are usually most effective when they have a full complement of members in attendance.

Condition: We reviewed a sample of the minutes to Board meetings in calendar years 2007 and 2008. From this review we noted that eleven directors attended one-half or fewer meetings; seven attended approximately two-thirds of the meetings, and five attended more than three-quarters of the meetings.

Effect: Boards that do not have a full complement of members may experience difficulty in obtaining quorums and may not benefit from the intended representation of various groups' opinions and objectives.

Cause: The cause is unknown.

Recommendation: The Community Economic Development Fund should implement an attendance requirement for Board members. (See Recommendation 1.)

Agency Response: "The Community Economic Development Fund is in the process of developing and implementing an attendance requirement policy for Board of Director members."

RECOMMENDATIONS

Prior Audit Recommendations:

There were no recommendations developed for the prior report that covered the calendar years 2004, 2005, and 2006.

Current Audit Recommendations:

- 1. The Community Economic Development Fund should implement an attendance requirement for Board members.**

Comment:

We noted that almost half the Board members attended one-half or fewer meetings during the audited period. Only five Board members attended more than three-quarters of the meetings.

CONCLUSION

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

Timothy M. LePore
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

November 22, 2010
State Capitol
Hartford, CT