As of the publication of this report our nation is still in a recession. This will turn out to be the longest recession of the post World War II period and one of the deepest, with unemployment rates climbing towards double digits.

What has this meant for The Reinvestment Fund?
Improving Access to Affordable Fresh Foods

The economic downturn has had an impact on every aspect of our work. We have had to pay close attention to liquidity (the availability of cash), asset management (the quality of our loan portfolio), and our capital base. While we continue to be strong in those areas, we are more challenged in each area than a year ago.

For the first time in many years, our lending activity declined in terms of total capital loaned out. This did not happen because of the lack of credit-worthy projects but because our supply of money was more restricted, creating limits to our allocation of new project financing. In this annual report, you will find examples of high impact projects such as charter schools and supermarkets that have thrived through TRF financing.

Our loan portfolio continues to perform well although there has been a slight deterioration in our equity base. While the volume of both our lending and our real estate development activity (through our affiliate TRF Development Partner) is slower than we had hoped, there has been increased demand for our ability to provide policy solutions and information services. TRF’s analytical skills and our proprietary data platform (policymap.com) are delivering important strategic advice and actionable solutions to municipalities and state governments across the nation. We are providing data-based decision-making tools that can help during these difficult times.

As loan origination declined and our loan loss reserve requirements increased, there has been a slight deterioration in our equity base. But we continue to boast a very strong capital ratio, two to three times stronger than a solid bank. We are dedicated to managing our finances with long-term sustainability in mind, and we will continue to make appropriate management decisions as circumstances dictate. As our investors and partners, you can count on transparency and decisiveness in all that we do.

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We can never lose sight of the fact that the greatest impact of the downturn is in the communities where we lend. Over the past ten years, we warned of the escalating impact of foreclosures through irresponsible lending. We published report after report on the subject, tracing the growth of high-priced subprime loans and the unfairness of public and private regulators to address the long-term consequences of these products.

Unfortunately, we were more right than we could ever imagine. We remain dedicated to serving those communities that have been hit so hard by the economic crisis. This is no time to be discouraged. We will continue to make development credit available and we will continue to use our analytical advantage to leverage private capital, as well as resources from the public sector. Where we are able to demonstrate accomplishments that can inform national policy, – as with our Fresh Food Financing Initiative – we will not be shy about promoting our work.

Our policy reputation has even reached the White House. The White House Office of Urban Affairs visited a supermarket we financed on the first stop in their National Conversation on the Future of America’s Cities and Metropolitan Areas. We hosted a town hall meeting that also featured two Cabinet Secretaries (Agriculture and Commerce) and one Undersecretary (Housing and Urban Development). Moreover, I was honored to be one of twenty people from around the country invited to the White House for a one-day policy summit on cities and regions.

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Jeremy Nowak
President & CEO

Breaking the Code to Success in Public Education

Only 18% of Philadelphia public school students who enter first grade graduate from college – a staggering trend as noted by Scott Gordon, CEO of Mastery Charter Schools in his testimony on high school reform and competitiveness to a U.S. House Committee last spring. In the face of such a challenge, Mastery and some other high-performing Charter Management Organizations (CMO) seem to have broken the code on affecting change in failing urban schools.

In 2006, the School District of Philadelphia invited Mastery to convert the failing Shoemaker Middle School to a charter school, its third in the city. Keeping existing students, Mastery created an achievement-focused culture, insisting on high expectations and strong support to help students succeed. Additionally, it upgraded and repaired the facility with financing from TRF. In just two years, Mastery closed the achievement gap between the low-income minority students at Shoemaker and their state-wide peers. Committed to helping successful CMO schools replicate their models, TRF has also financed each of the Mastery Schools, Uncommon School’s North Star Academy in Newark, NJ and Knowledge Is Power Program (KIPP) schools in Washington, DC.

As the only remaining supermarket in Gettysburg, Kennie’s Market was determined to serve the growing needs of the local community without moving outside the city. But its facility was small, outdated and in need of replacement. Kennie’s has long been recognized as one of the best in need of replacement. For a store large enough to accommodate the needs of the community, Kennie’s would have to purchase several adjacent properties and build a new store on those lots. However, to do so was cost prohibitive.

Kennie’s turned to TRF for help figuring how to take on such development in its downtown location. With financing from the Pennsylvania Fresh Food Financing Initiative, Kennie’s was able to lower costs associated with the construction and attract an additional $6 million in private capital for the project. Kennie’s opened a new 32,000 square foot facility and parking garage, doubling employees to 100 and extending its selection of local produce considerably. Since then, the family, and employer-owned supermarket has seen total sales double, with produce sales, in particular, growing three-fold.

Improving Access to Affordable Fresh Foods

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One result of this crisis will be a reappraisal of what constitutes sustainable economic growth. As the housing price bubble burst, the financial system began to unravel. And as the unraveling occurred, the weakness of our regulatory and consumer protection system became apparent.

Today we search for a new social contract between public regulation and economic markets; between consumer protection and product innovation; and between the past (what we want) and the future (how we invest). TRF’s success in delivering public value through private capital gives us an opportunity to play a role in this emerging dialogue. We owe it to you, our investors, our partners, and most of all the customers and communities we serve, to speak out and carry on.

Jeremy Nowak
President & CEO

We can never lose sight of the fact that the greatest impact of the downturn is in the communities where we lend.”
TRF Financing Transactions Closed in Fiscal Year 2009: $82.7 Million in 123 Transactions

Our Results

FOR FY
2009

Our community investments have totaled $82.7 million, including $79.4 million in loans and investments and $3.3 million in grants.

SINCE INCEPTION
1985

Our community investments have totaled $865.6 million, leveraging $2.9 billion in total development capital.

These investments resulted in:

- enough to power 67,400 homes for a year
- •
- •
- •
- •
- •
- •

These investments resulted in:

- 629,332 MWh of energy
- 60 businesses
- 11 charter schools
- 796,033 square feet of commercial space
- 1,257 homes

Providing Actionable Solutions through Data and Analyses

Early this year, the Obama administration authorized a second round of Neighborhood Stabilization Program (NSP) funds, offering grants to states and local communities to purchase foreclosed or abandoned homes and to rehabilitate, rent, or redevelop these homes in order to stabilize neighborhoods and stem the decline of neighborhood housing values.

With the first round, TRF’s PolicyMap provided applicants with an effective tool to quickly understand HUD’s key indicators. PolicyMap mapped HUD’s data, allowing applicants to easily visualize a place and determine eligibility for NSP funds. TRF also offered applicants customized assistance and more fine-grained data analyses to better target foreclosure intervention resources. This included using comprehensive market data to identify those areas where state policy objectives could be supported with NSP-eligible activities.

Pennsylvania and New Jersey turned to TRF for analytical expertise with their first round NSP plans. In addition to helping these states identify high priority need and investment areas, TRF also helped them make the analyses available to their counties seeking to distribute those funds within local communities. Together these two state governments received roughly $110 million of the $3.97 billion of first round NSP resources.

Community Facilities

$26,669,360
Total: 45 Transactions

- City of Butler Redevelopment Authority
- Cramer Hill CDC
- J S D D, Inc.
- L B R S, Inc.

Commercial Real Estate

$35,684,088
Total: 7 Transactions

- A H L Office Building
- C S T L, Inc.
- J o e s D e v e l o p m e n t C o m p a n y, Inc.

Private Equity

$375,500
Total: 6 Transactions

- B a l b i a n i M a n u f a c t u r i n g
- E l b r o o k C o m p a n y, Inc.

Energy

$2,124,808
Total: 3 Transactions

- D e v e l o p m e n t A s s o c i a t e s
- S a n e e d e d C o r p.

Table 3: NSP-Eligible Projects

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<th>NSP Projects</th>
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* Multiple Transactions
Financial Summary

The following are selected financial highlights from the past year. A complete Audit Report for fiscal 2009 and listing of TRF’s financial investors and supporters can be found on our website at www.trfund.com/AR2009.

Capital Under Management

Total capital under management increased by 13% to $545 million. Components of the growth include a $75 million New Markets Tax Credit allocation from the U.S. Department of Treasury’s CDFI Fund, $7 million in investments from foundations and civic investors, and $8 million in support of our real estate development efforts. $20 million in new bank credit facilities was offset by a reduction in credit availability on maturing syndicated bank loan facilities and loan participation facilities.

Loans & leases outstanding increased by almost $30 million (26%) in 2009 over 2008, driven by closings of $78.8 million and by recent years’ longer term loans, particularly for charter schools and supermarkets. We had significant increases in most program areas in investments from foundations and credit availability on maturing syndicated bank loan facilities and loan participation facilities.

Consolidated Net Assets

Total consolidated net assets increased by $1 million to $73 million. Significant activity impacting net assets included the conversion of a loan to an equity investment by the William Penn Foundation in support of TRF’s financing activities, recognition of additional grants from PA Dced in support of our PA Fresh Food Financing Initiative, partially offset by costs associated with TRF’s start-up businesses as well as a significant prudent increase in our provision for loan losses.

FINANCIAL REVIEW HIGHLIGHTS

As of June 30


FINANCIAL POSITION DATA

Total assets 234,177 194,358 179,886 156,133 114,008
Loans and leases receivable 143,334 113,829 91,646 65,842 61,672
Allowance for loan and lease losses 9,039 5,692 4,580 3,292 3,083
Investments in New Markets equity securities 22,471 33,340 37,319 35,467 28,350
Program investments 326 389 948 1,365 802
In limited partnerships 1,806 2,048 2,568 3,176 4,853
Private equity investments,* 9,708 11,140 11,179 0 0
Loans payable 149,111 107,363 91,646 65,842 61,672
Net assets (excluding SDF) 8,289 11,649 9,943 9,860 10,640
Unrestricted 31,771 20,551 15,488 16,005 5,790
Temporarily restricted 27,771 27,467 22,757 17,648 6,944
Permanently restricted 61,179 59,667 48,188 44,613 23,374
Sustainable Development Fund (SDF) net assets 10,179 10,108 10,777 11,322 11,178
Temporarily restricted - contractually limited as to use 1,130 1,172 4,685 6,254 8,917
Permanently restricted - contractually limited as to use 11,309 11,835 15,462 17,976 20,095
Total consolidated net assets 72,548 71,502 63,650 62,189 43,469

Years ended June 30

(dollars in thousands)


ACTIVITIES DATA

Net investment income (including loan and lease fees) 5,957 6,704 6,407 5,169 3,348
Provision for loan and lease losses 3,888 1,217 1,521 948 390
Asset management fees 927 873 690 689 1,501
Grants and contributions 11,557 12,057 8,174 27,073 8,828
Program services and fees and Other income 3,867 2,764 1,443 3,103
Change in net assets 11,557 12,057 8,174 27,073 8,828
Total, excluding The Sustainable Development Fund 11,557 12,057 8,174 27,073 8,828
Sustainable Development Fund (526) (3,482) (2,114) (2,518) (9,933)
Change in consolidated net assets 11,031 8,575 5,060 24,555 29,511

OTHER DATA

Capital under management 544,928 481,692 402,617 388,737 255,380
Allowance for loan and lease losses as a % of total loans and leases 6.3% 5.0% 5.0% 5.0% 5.0%
Net loan loss (recovery) ratio 1.03% 0.57% 0.25% 1.12% 0.25%
Capital adequacy ratio, excluding SDF*** 28% 33% 29% 32% 25%
Self-sufficiency ratio – financing programs excluding SDF**** 99% 94% 97% 95% 91%

* TRF Urban Growth Partners, L.P. is included in the consolidated results of TRF and Affiliates effective for fiscal 2006 and later.
** Fiscal 2009 includes $930 thousand and fiscal 2008 includes $547 thousand of charge-offs supported by dedicated grants funds.
*** Capital adequacy ratio is calculated as net assets as a percentage of total assets.
**** Self-sufficiency ratio calculated as the net of net interest income, loan fees, asset management fees and grant revenue designated for lending as a percentage of financing programs and related management and general expenses.